THE SUPPLEMENTAL SECURITY INCOME PROGRAM AT THE MILLENNIUM

ERRATA

The original electronic version of this document contained incorrect numbers for the estimates in the column titled "New beneficiaries" in Table 3-5. The estimates are correct in the printed version of the report and have been corrected in this PDF version.

The data in Table 3-2 were incorrect in the original electronic and printed versions. They have been corrected in the current PDF version and in the second printing of the report.

SOCIAL SECURITY

Office of the Commissioner

November 30, 2000

A Message from the Commissioner

Since 1974, the Supplemental Security Income (SSI) program has been a key part of the nation's safety net for people who are aged or who have disabilities, including 860,000 children. The program provides benefits to about 6.6 million persons who have very low income and assets and need help to provide for their economic needs.

In October 1998, I issued a report that described the results of a review that identified areas in which the SSI program could be better managed. In that report, entitled *Management of the Supplemental Security Income Program: Today and in the Future*, I promised to issue other reports that would keep the American public apprised of our progress in the initiatives described in that report. The current report provides that update, particularly Chapter 4, but it also provides a more comprehensive review of the program in terms of two major areas of policy.

The first area is the adequacy and structure of benefits. This review follows up on SSA's *Report on Supplemental Security Income: Income and Resource Exclusions and Disability Insurance Earnings-Related Provisions*, which was published in March 2000 in response to a congressional mandate. That report provided information about amounts that are excluded from income and resources when determining SSI eligibility and payment amount; this report takes a broader look at economic security for SSI beneficiaries. The second area consists of long-standing issues of program complexity and opportunities for program simplification. This report also provides additional context by briefly discussing the program's history and demographic trends.

We believe that the SSI program is one of America's success stories, and SSA is proud of its role in providing a lifeline to some of America's most vulnerable citizens. Nonetheless, we continually look for ways to improve the program and to manage it more efficiently. I believe the analysis and options presented in this report can point the way to further consideration of a broad range of policy and administrative issues.

Kenneth S. Apfel

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Commissioner of Social Security

Prologue

The Supplemental Security Income (SSI) program is a collection of laws, regulations, and policies. It is also a collection of life stories.

In Toccia, Georgia, a 99-year-old widow can stay in her own home because her SSI payment makes the difference to meet the modest expenses she has. In Hamletsburg, Illinois, a mentally ill man who was living in a shack without utilities and panhandling for food can rent a room, pay for his own meals, and receive medical care after getting on SSI. In New Rochelle, New York, a man paralyzed in a swimming pool accident at 19 goes on, under an SSI plan to achieve self-support, to complete college, obtain an MBA, and eventually become a vice president of a large financial management company. In Whittier, California, the young mother of a 4-year-old boy who cannot see, hear, or speak can take her son to the doctor because of the Medicaid that goes along with his SSI benefit.

There are millions of these stories.

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Executive Summary

This report provides an assessment of key issues in the Supplemental Security Income (SSI) program, which provides cash assistance to more than 6.5 million of America's most vulnerable people. The report covers the evolution of the program, issues of benefit adequacy, the challenge of program simplification, and current activities of the Social Security Administration (SSA) to enhance program integrity. It provides options for consideration in the areas of adequacy, simplification, and integrity, but it does not make recommendations.

The SSI caseload has evolved and grown, but not as much as originally expected. The program now serves primarily people with disabilities.

The SSI program replaced state welfare programs. Key congressional expectations upon enactment of the program in 1972 were that it would provide supplemental income for those with low or no Social Security benefits, provide adequate benefits administered in a manner so as to preserve beneficiaries' dignity, and be efficiently administered. Congress also expected a large increase in enrollment, to as many as 7 million or more in 1975, the first full year of program operations.

The large increase in enrollment did not materialize immediately, although the program did grow steadily from the early 1980s through 1996, when it peaked at about 6.6 million—the same number of beneficiaries receiving federally administered SSI payments in December 1999.

Growth in the total number of beneficiaries has been due to growth in the number of those eligible on the basis of disability, both those under 18 and those aged 18 and over. The number of individuals eligible on the basis of age has declined.

SSI is essential to beneficiaries' economic security, but the level of benefits leaves many SSI beneficiaries below the poverty level.

Looked at in terms of family income, nearly 50 percent of SSI beneficiaries live in families below the poverty threshold, and 23 percent live in families with income under 75 percent of poverty. Also, even though the federal benefit rates have been increased annually to keep pace with inflation, the exclusions for earned and unearned income have not. Consequently, over the years the receipt of other income such as Social Security benefits has become less helpful to SSI beneficiaries in meeting their needs.

The federal SSI benefit rates have remained at about 70 percent of the poverty threshold for an individual and 83 percent for a couple because they are increased each year for the cost of living. In addition, individuals and couples in independent living situations in 27 states can receive state supplementary payments, but only in two states does the combination of state and federal payments bring the payment rate above the poverty threshold. About 54 percent of SSI beneficiaries have no other source of income besides their SSI benefits.

Four possible options to improve benefit adequacy are to:

- Increase the general income exclusion from $20 to $80 and index it to the consumer price index (CPI-W).

- Increase the federal benefit rate ($512/$769 as of January 2000) by $50 for an individual ($75 for a couple) and eliminate the general income exclusion.

- Increase the earned income exclusion from $65 to $260 and index it to the CPI-W.

- Increase the resource limit from the current $2,000 to $3,000 for an individual and from $3,000 to $4,500 for a couple and index it to the CPI-W.

All of the above options reduce poverty to some degree. All would also allow additional people to qualify for SSI. Increasing the federal benefit rate helps the poorest beneficiaries and the greatest number of beneficiaries but does not reward work. Increasing the general income exclusion reduces poverty for some and rewards work but does not help the poorest beneficiaries. Increasing the earned income exclusion rewards work but helps far fewer. Increasing the resource limits improves the poverty status of low-income persons not currently eligible for SSI but in general does little for those who are already receiving SSI.

Because SSI is a means-tested program, many SSI rules are complex. There may be some opportunities for simplification.

Administration of the SSI program is complex because SSA must determine eligibility and payment amount based on a timely and accurate measure of need. Beneficiaries' need for support varies with their personal circumstances, such as amounts of other income and their living arrangements. Therefore, a degree of complexity is inherent in the program as SSA obtains information about the details of those individual circumstances.

SSA analyzed SSI policies in the following three areas, chosen because they may be more complex than necessary for beneficiaries, or are leading causes of incorrect payments, and because they may offer opportunities for simplification.

- *Simplifying the estimating and verifying of earned income.* Estimating and verifying earned income is a burdensome task for beneficiaries, employers, and SSA field office staff. This task has been the major source of incorrect payments as well as a source of complaints from beneficiaries and field staff. Possible alternatives for simplifying and reducing verification efforts would be to average wages over the calendar year or over the number of months worked during the year.

- *Changing or consolidating resource rules***.** Some incremental changes are possible, but the most simplification would be achieved by a broad redefinition of resource policy, including raising the limits and removing many individual exclusions.

- *Modifying rules for counting in-kind support and maintenance (ISM***).*** The policies could be simplified, but most simplifications would involve additional program costs. The most significant simplification option (eliminating consideration of ISM entirely) is the most expensive.

SSA is implementing a comprehensive program to improve payment accuracy and program integrity.

In 1998, SSA developed a comprehensive plan to improve payment accuracy and management of the SSI program. The plan, which is outlined in the October 1998 report, *Management of the Supplemental Security Income Program: Today and in the Future*, involved steps in four areas:

1. Improving payment accuracy. A number of steps have been taken, the most significant being increasing the number of redeterminations and computer matches.

2. Increasing the number of continuing disability reviews.

3. Combating fraud with special initiatives to address residency fraud, collaborator fraud, and fugitive felons.

4. Improving debt collection with the use of new tools such as cross-program recovery.

Results indicate that SSA made progress in improving payment accuracy in fiscal year (FY) 1999, increasing the accuracy rate from 93.5 percent in FY 1998 to 94.3 percent in FY 1999. However, despite the efforts detailed in this report, it does not appear that SSA will be able to achieve the 96 percent accuracy goal for FY 2002 set forth in the 1998 report.

The agency is also considering two additional measures:

- Seeking legislation to exclude SSA's administrative expenses from discretionary spending caps, and

- Testing alternative methods for wage reporting by beneficiaries.

Chapter 1

Introduction: The Evolution of the SSI Program

Since its inception, the Supplemental Security Income (SSI) program has presented the Social Security Administration (SSA) with the challenge of maintaining the program's crucial role in assisting and supporting economically vulnerable people while enhancing program integrity and making the program less complex and more efficient. Part of that challenge involved managing the transition from state programs to a national program and adapting agency practices to administering a means-tested program as well as to the changing composition of the population the program serves.

SSI Replaced State Welfare Programs

Congress established the SSI program with the Social Security Amendments of 1972 (Public Law 92-603). SSI replaced Old-Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled—all state-administered programs jointly funded by the states and the federal government. In addition, SSI introduced a benefit for children based on their own disability.

During debate over the original SSI legislation, Congress expressed concern about state-by-state variations in the level of support provided to those in the programs that SSI replaced. For example, in 1973, income support levels for aged individuals in those programs ranged from $85 to $250 monthly. Twenty-eight states and the District of Columbia had support levels below the (eventual) new individual federal benefit rate of $140 per month. Besides the welfare of the beneficiaries, Congress questioned the administrative efficiency of the state-run programs.

To address these concerns, Congress decided to federalize the programs. In shifting from a state to a national program, Congress intended to provide assistance to the most vulnerable blind, disabled, and aged individuals through a program with nationally consistent rules and uniform benefit standards. Congress chose SSA to administer SSI because of the agency's reputation for efficient and compassionate administration of the Social Security program.

There was also a general expectation that administering the SSI program would be much like administering the title II Social Security program. Indeed, SSI benefits were conceived of as a supplement to the Social Security program. It was expected that the relationship between the programs would, if anything, become closer as time went on. "The proportion of dual eligibility can be expected to increase in the future since many of those who are now ineligible for title II benefits are simply so old that their period of work history occurred prior to the time that social security coverage was available."[1]

In fact, eligibility for and the level of Social Security benefits became high enough over time that the proportion of dual entitlement among those age 65 and over who were not disabled declined, from almost 70 percent to 60 percent of the aged caseload. Furthermore, administering the new program proved challenging for SSA because the philosophy (economic need) that underlies a means-tested program such as SSI differs in fundamental respects from Social Security, for which the right to benefits is earned (based on work).

In administering the SSI program, SSA seeks to achieve three key objectives:

- Benefit adequacy, that is, providing a minimum level of income for the aged, blind, and disabled to meet basic living needs;

- Benefit equity, or ensuring that those with similar income, resources, and living arrangements are treated similarly by establishing objective criteria for determining eligibility and benefit amounts; and

- Program integrity, or ensuring that benefits are paid accurately and efficiently and with no tolerance for fraud.

Basic SSI Eligibility Requirements

Eligibility requirements for SSI benefits are stringent. To be eligible, an individual must be at least age 65, blind or disabled, a United States citizen or an eligible noncitizen, and reside in the United States. An individual also must meet income and resource limits. These statutory limits ensure that SSI benefits are targeted toward the neediest among the aged, blind, and disabled.

SSA field office employees determine whether an individual (aged, blind, or disabled) meets the SSI nonmedical eligibility requirements. An individual cannot be eligible for federal SSI benefits if he or she has countable income of more than the 2000 federal benefit rate of $512 a month ($769 for a couple). The monthly benefit rate is reduced dollar for dollar by the amount of the individual's countable income. SSI law defines two kinds of countable income: earned and unearned. Earned income is generally wages, net income from self-employment, and remuneration for work in a sheltered workshop. All other income, such as Social Security benefits, workers' compensation, or income received in kind (that is, food, clothing, or shelter-related items), is defined as "unearned."

[1] *The Supplemental Security Income Program,* Report of the Staff to the Committee on Finance, United States Senate (1977), p. 81.

The countable resources of an individual cannot exceed $2,000 or, in the case of an individual and spouse, $3,000. SSI regulations define a resource as cash or other liquid assets or any real or personal property that an individual (or spouse) owns and could convert to cash to be used for his or her basic needs.

The amount of a person's income is used to determine both eligibility for, and the amount of, that person's benefit. In certain situations, other people (for example, parents and spouses) are expected to share financial responsibility for the individual in determining the person's eligibility and payment amount.

Individuals' monthly SSI benefit amounts are also affected by their living arrangements. For example, when individuals move into nursing homes and their expected stay is for more than 3 full months, their benefits are generally reduced to not more than $30 per month. Generally, benefits also are reduced when individuals live in the household of another person and that person provides food, shelter, or both.

Eligibility for SSI benefits based on disability requires that an individual be unable to engage in substantial gainful activity because of an impairment that is expected to last at least 12 months or to result in death. After an individual becomes eligible for disability benefits, SSA periodically conducts continuing disability reviews to determine whether a beneficiary has medically improved and is, therefore, no longer eligible for benefits. While nonmedical eligibility and payment amount determinations are made at the time an initial application is filed, SSA field office staff also conduct periodic reviews, called redeterminations, to determine whether the beneficiary remains eligible and whether the benefit amount is correct.

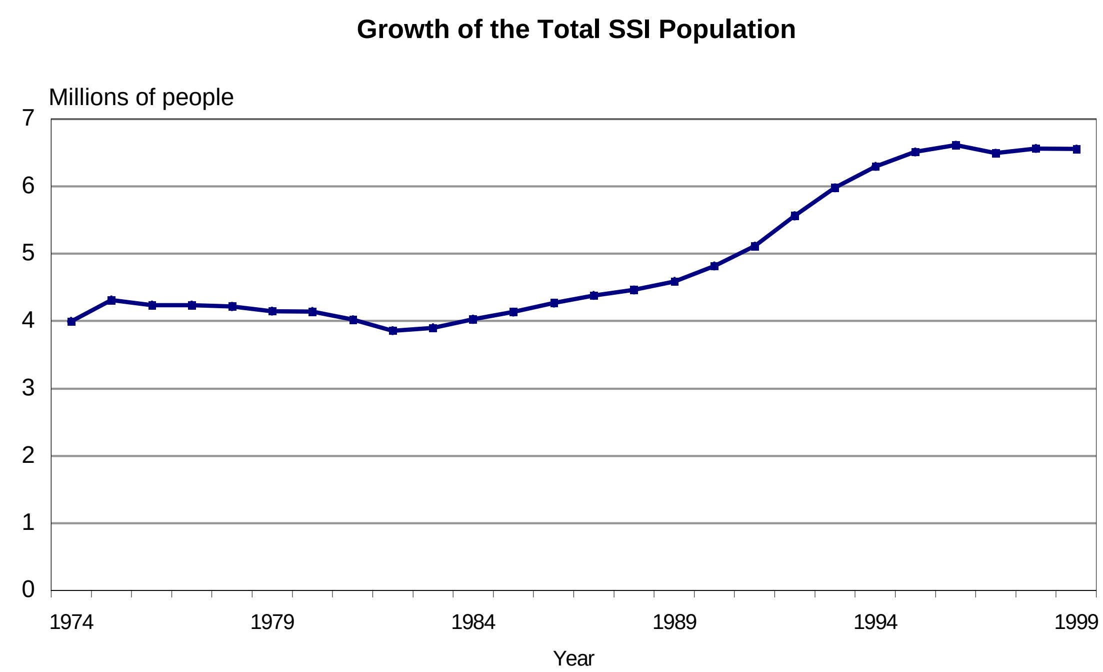
SSI Caseload Grew Less Than Congress Expected

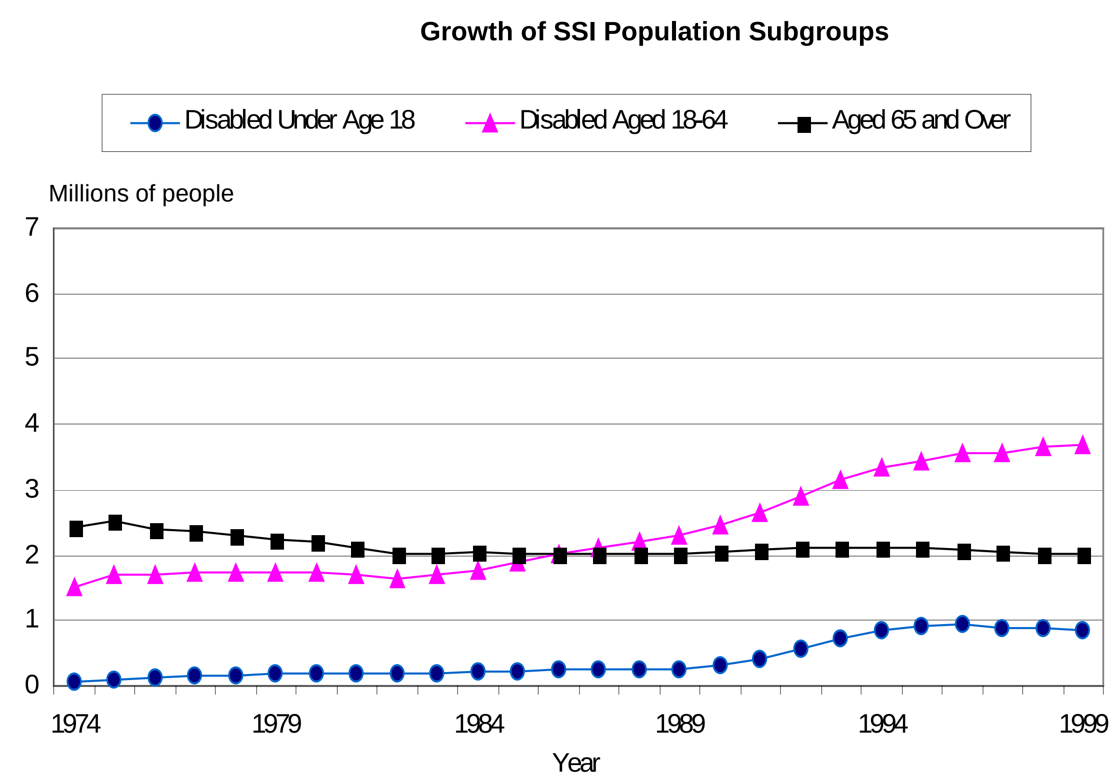
When the SSI program was created, Congress anticipated that the program would enroll substantially more beneficiaries than had participated in the state programs being replaced. Official estimates were that "…in the first year of the new program, 6.2 million aged, blind, and disabled people would be eligible for benefits. In fiscal year 1975, the first full year in which the program would reach the ultimate benefit level in the bill, it is estimated that 7.1 million aged, blind and disabled people would get $5.4 billion in benefits."[2]

As it happened, the number of people receiving SSI payments did not reach 6.2 million until 1994 and has never reached 7 million (see Chart 1-1). The SSI program began with a built-in set of customers: those served by the prior state programs for the aged, blind, and disabled. In January 1974, federal SSI benefits were paid to 3.2 million people, nearly all of whom were previously served by state programs.

[2] *U.S. Congressional and Administrative News*, 92nd Cong., 2nd sess. (1972), vol. 3, p. 5133.

Chart 1-1.
SSI population trends, calendar years 1974-1999





SOURCE: Social Security Administration, *Annual Statistical Supplement* to the *Social Security Bulletin*, 1975-1999.

At first, the SSI rolls grew rapidly. By December 1974, almost 4 million beneficiaries received federally administered SSI payments. By the end of 1975, the program hit its peak enrollment for the decade at just over 4.3 million beneficiaries. Thereafter, enrollment declined slightly so that by the end of the decade it stood at about 4.2 million.

The rolls actually declined from 1977 through 1982, when the total dipped below 3.9 million for the first time since mid-1974. In 1983, the number of beneficiaries began a slow and steady rise, ending in 1989 at just under 4.6 million. The beginning of the trends that were to mark the 1990s had become visible.

The main reasons for the SSI caseload increase during the late 1980s and early 1990s are discussed more fully below. In brief, the growth, primarily attributable to adult and child disability cases, resulted from changes in the definition of some mental impairments, a 1990 Supreme Court decision, and SSA outreach efforts. In addition, between 1989 and 1995, the percentage of SSI beneficiaries who are noncitizens increased by almost 50 percent, from 8.1 percent to 12.1 percent.

The population served today is different from the population that was anticipated in 1972. In the 1980s, an increase in the proportion of disabled people on the rolls (both among children under age 18 and adults ages 18 through 64) fueled program growth, while the number of applicants eligible on the basis of age declined or held steady (see the bottom panel of Chart 1-1).

Trends that first appeared in the late 1980s continued during the early 1990s. Overall, the number of people on the rolls increased rapidly, peaking at 6.6 million in 1996. The proportion of those over age 65 declined from 42.7 percent of the total SSI population in 1990 to 31 percent in 1998. That segment has held roughly steady at just over 2 million throughout the decade; by contrast, the number of beneficiaries under age 18 more than tripled between 1990 and 1996.

Three noteworthy factors contributed to the rapid growth in disability cases during the early 1990s. First, the Supreme Court's decision in *Sullivan v. Zebley* resulted in a less stringent disability standard for children and led to a larger number of children on the rolls. Next, after the agency published revised regulations for the determination of certain mental impairments, there were increases among both adult and child disability allowances. Third, SSA outreach efforts mandated by Congress in 1989 and heightened public awareness of SSI following the *Zebley* decision led to a concomitant increase in adults and children who applied and were found to be disabled.

An increase in the proportion of noncitizens in the SSI population during the late 1980s and early 1990s also played a role in program growth. Noncitizens accounted for 3.3 percent of beneficiaries in 1982, but by 1989 they constituted about 8 percent of the SSI population. Noncitizens peaked at about 12 percent in 1995 and declined to about 10 percent by 1999.   With limited exceptions, noncitizens who enter the country after August 22, 1996, are currently ineligible for SSI.

At the close of the 1990s, the percentage of beneficiaries eligible on the basis of age continued its gradual decline, while the proportion of disabled adults and children leveled off following passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). That legislation severely restricted SSI eligibility for noncitizens and established a new, more restrictive definition of disability for SSI children. Subsequent legislation has relaxed the noncitizen restrictions somewhat.

In December 1999, there were 6.6 million SSI beneficiaries comprising 31 percent aged and disabled aged 65 or older, 56 percent blind or disabled aged 18-64, and 13 percent blind or disabled under age 18. Total SSI payments in calendar year 1999 were $31 billion.[3]

In summary, over the life of the program, the percentage of individuals eligible on the basis of age has fallen while the percentage of individuals eligible on the basis of disability has risen. (Unlike in the Social Security program, an individual who was originally entitled as disabled is not automatically converted to the aged category at age 65.) These demographic changes, which were not anticipated in the original legislation, may be accounted for by two developments:

- Higher levels of Social Security benefits that led to a decline in concurrent eligibility among the SSI aged, and

- Greater-than-expected numbers of disabled children and younger adults who applied for SSI and were found eligible.

The relatively rapid increase in the number of disabled adults and children on the rolls and the decline in concurrent Social Security entitlement indicate that the program continues to change from one that supplements Social Security retirement benefits to a more broadly based public assistance program. The continuing challenge for SSA is to seek ways to better serve the changing needs of the SSI population. This report assesses that challenge in terms of the structure of benefits, program complexity, and program integrity.

Managing and Improving the SSI Program

In October 1998, SSA issued the report *Management of the Supplemental Security Income Program: Today and in the Future*, which described SSA's efforts to fulfill its commitment to managing the SSI program efficiently and effectively. With the passage of 2 years, it is appropriate to present the progress on the measures described in the 1998 report and to address some additional issues of importance to the program, its beneficiaries, and other interested parties.

[3] Total includes $3.3 billion in federally administered state supplements and $0.9 billion in state-administered supplements.

This report deals with three major SSI program policy and management issues:

- **Improving benefit adequacy for SSI beneficiaries.** Because the basic federal benefit rate is indexed for inflation, its purchasing power is essentially the same as when the SSI program began. Nevertheless, the economic status of SSI beneficiaries overall has deteriorated because of the declining value of unindexed exclusions for unearned and earned income and a decline in the proportion of the SSI population with other sources of income.

- **Simplifying SSI program complexities.** Complexity is inherent in a means-tested program, but simplifying program rules would make SSI easier for beneficiaries to understand and for SSA to administer. Simplification opportunities include the counting of income and other support and standardizing or consolidating selected resource exclusions.

- **Improving payment accuracy and program integrity**. Program integrity is the touchstone of a public cash-benefit program. SSA must continue and enhance its efforts to ensure payment accuracy and to deter and prevent fraud through its data matching and sharing programs. We must also pursue new tools to prevent errors and use existing authority for offsets and recoveries more vigorously.

This report focuses on benefit adequacy and program integrity because those topics represent two central goals of the program. Program simplification supports those objectives through a more efficient program structure. Together, the topics form the basis for a balanced analysis of the SSI program, which will in turn establish a foundation for developing options to enhance program policies and management. The report presents options for consideration.

Chapter 2

SSI and Economic Security

Since the beginning of the program, the SSI benefit has been essential in preventing destitution for many beneficiaries. Nevertheless, SSI benefits alone leave beneficiaries well below the poverty threshold. The 2000 SSI federal benefit rate of $512 per month for an individual represents about 70 percent of the poverty threshold, and the couple rate of $769 represents about 83 percent of the threshold for a two-person household.[1] Those ratios have remained nearly constant throughout the almost 26 years the program has existed.

Congress expected that SSI would supplement other income such as Social Security benefits; however, 54 percent, or over 3.5 million SSI beneficiaries, do not have any other source of income.[2] Even those who do receive other income derive little gain because the exclusions, or amounts of earned and unearned income not used in determining an individual's benefit, are not indexed for inflation. To determine whether SSI benefit levels are adequate to meet beneficiaries' needs for food, clothing, and shelter, we must also consider other benefits the person may receive, such as state supplements, food stamps, and housing or energy assistance.

Half of SSI Beneficiaries Live in Poverty

Comparing SSI benefit levels with poverty thresholds does not present the full picture regarding poverty; it is necessary to consider the family situation of the SSI beneficiary as well. The interplay of family size, other income and income-counting rules, and the effect of state-funded supplementary payments complicate how we evaluate the adequacy of the SSI benefit and the poverty situation of SSI beneficiaries in general.

For example, an SSI beneficiary may be one member of a multiperson family. The poverty situation should then ideally be assessed in terms of that family unit, since the SSI beneficiary is likely to both help provide support for and benefit from being in a family situation. Data that link SSA administrative records to survey records from the Survey of Income and Program Participation (SIPP) provide information on family poverty rates. Table 2-1 contains data from those linked records.

[1] Based on preliminary estimates of 1999 poverty thresholds. Poverty thresholds for 2000 will not be available until 2001.
[2] As of December 1999.

As one can see from Table 2-1, even after receipt of the SSI payment, close to half of SSI beneficiaries live in families below the poverty line, and 23 percent of SSI beneficiaries live in families with income under 75 percent of poverty. For beneficiaries in families for which income is above the poverty threshold, factors other than the federal SSI benefit alone must be in play. It is possible that other members of the family receive income sufficient to lift the entire family out of poverty.

For example, only 26 percent of children receiving SSI live in families under 100 percent of the poverty line, compared with 51 percent of each of the other age groups, which indicates that an employed parent's income boosts the entire family above the poverty threshold.

Table 2-1 does not include income from state-administered state supplements; however, the vast majority of state supplements are federally administered. In 1999, about 2.5 million SSI beneficiaries received federally administered supplements, compared with about 670,000 who received state-administered supplements.[3]

Table 2-1.
Poverty status of SSI beneficiary families, by age, March 1997 (percent)

Age	Number of beneficiaries	Poverty status				
		Under 75%	75-99%	100-125%	125-149%	150%+
Total	6,755,000 [a]	23	24	11	11	31
Under 18	1,022,000	13	13	16	14	43
18-64	3,871,000	32	19	10	9	30
65+	1,863,000	12	39	11	12	26

SOURCE: Poverty status is based on reported cash income and Social Security records. The 1997 Survey of Income and Program Participation (SIPP) data are the most recent available.

a. Numbers may not sum because of rounding; total derives from a sample and does not correspond exactly to the number of beneficiaries based on administrative records.

[3] Table 2-1 includes one of the three states in which combined benefits for *individuals* are over 90 percent of the poverty threshold (California, the state that also contains the largest percentage of the SSI population) and 6 of the 12 states in which combined benefits for *couples* are over 90 percent of the poverty line (California, Massachusetts, Nevada, New York, Rhode Island, and Vermont).

State Supplementation Provides Additional Benefits

When the federal SSI program began in 1974, some vestiges of the prior state programs were allowed or required to remain. States were permitted to pay supplements, or additional money amounts, to SSI beneficiaries. Those supplements would not reduce the beneficiaries' federal benefits. When the prior state benefit amount was higher than what the beneficiary would receive from SSI, the state was required to pay a supplement so that the beneficiary would not be disadvantaged by the changeover to a federal program. At state option, SSA would administer its supplement program at no administrative cost to the state. (Subsequent legislation has imposed administrative fees.)

States that pay supplements sometimes designate only certain groups, living arrangements, or geographic areas for supplementation. In addition to beneficiaries in the "standard" living arrangements, such as living alone or with others in the community, many states pay supplements to those who live in various levels of care-provided situations, referred to by such terms as congregate care or domiciliary care. Supplement amounts may also vary by disability, blindness, age, or living arrangement.

State supplementation recognizes state-by-state variations in living costs. Previously, some states used individual budgeting to accommodate regional differences, but such systems were considered intrusive and were thought to discourage use of benefits for which persons were eligible. SSI provides a uniform national payment while state supplementation continues to recognize broad differences in the cost of living.

Today, state supplementation is the additional nonhealth benefit that SSI beneficiaries are most likely to receive. In 1999, about 48 percent of SSI beneficiaries received state supplements, which is also the primary means by which beneficiaries may rise out of poverty.[4] States that supplement SSI benefits may restrict supplementation to certain beneficiaries. Table 2-2 gives the combined federal/state payment level for an individual or couple living independently. Twenty-seven states supplement the basic federal benefit in those situations.[5] The table shows the relationship of those states' payment levels to poverty thresholds. The data are for 1997 to be comparable with the data shown in Table 2-1.[6]

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[4] Income adequacy is generally assessed relative to the U.S. government's poverty thresholds, described in terms of income amounts related to size of family unit. For example, the 1999 poverty line was $8,500 for a single-person household and $10,869 for a two-person household (preliminary estimates). In terms of a monthly income, the $8,500 poverty figure is $708 per month.

[5] Seventeen states (Alabama, Arizona, Delaware, Florida, Indiana, Kentucky, Louisiana, Maryland, Missouri, Montana, New Mexico, North Carolina, North Dakota, Ohio, South Carolina, Texas, and Virginia) and the District of Columbia pay state supplements to SSI beneficiaries in some situations other than living independently. Six states (Arkansas, Georgia, Kansas, Mississippi, Tennessee, and West Virginia) pay no supplements in any situation.

[6] The 1997 SIPP data matched to SSA administrative records used in Table 2-1 are the most recent available.

Table 2-2.
Maximum SSI income including state supplements (in states with supplements) for individuals and eligible couples living independently, as a percentage of poverty thresholds, 1997

State	Monthly benefit, 1997 (dollars)		Benefit as a percentage of poverty threshold, 1997	
	Individual	Couple	Individual	Couple
States with no supplement[a]	484	726	71	83
Alaska	846	1,254	124	144
California	640	1,122	94	129
Colorado	484	964	71	111
Connecticut	747	1,094	110	125
Hawaii	488	734	72	84
Idaho	532	742	78	85
Illinois	Individualized budgets		Not applicable	
Iowa	506	770	74	88
Maine	494	741	72	85
Massachusetts	596	901	87	103
Michigan	498	754	73	86
Minnesota	565	852	83	98
Nebraska	492	729	72	84
Nevada	520	800	76	92
New Hampshire	511	747	75	86
New Jersey	515	751	76	86
New York	570	829	84	95
Oklahoma	537	832	79	95
Oregon	486	726	71	83
Pennsylvania	511	770	75	88
Rhode Island	548	847	80	97
South Dakota	499	741	73	85
Utah	484	730	71	84
Vermont	539	829	79	95
Washington	492	726	72	83
Wisconsin	568	858	83	98
Wyoming	494	751	72	86

a. Seventeen states (Alabama, Arizona, Delaware, Florida, Indiana, Kentucky, Louisiana, Maryland, Missouri, Montana, New Mexico, North Carolina, North Dakota, Ohio, South Carolina, Texas, and Virginia) and the District of Columbia pay state supplements to SSI beneficiaries in some situations other than living independently. Six states (Arkansas, Georgia, Kansas, Mississippi, Tennessee, and West Virginia) pay no supplement in any situation.

A review of this information reveals that in four states (Alaska, California, Connecticut, and Massachusetts), the supplemented payment level for an individual living independently is above 85 percent of the poverty threshold. The SSI beneficiaries in those states total slightly more than 1.4 million, or about 22 percent of about 6.6 million SSI beneficiaries (as of December 1999). For those individuals, state supplements provide a significant boost toward the poverty line; for the rest, however, even the value of other benefits they might receive is unlikely to bring them up to the poverty threshold.

Besides the living situation of SSI beneficiaries and state supplements, we must consider the value of noncash benefits they may receive, as well as other earned and unearned income. While the poverty statistics in Table 2-1 include other cash income such as state supplements, they do not take account of noncash benefits like food stamps or housing assistance. Nevertheless, those benefits contribute to the economic security of the SSI beneficiaries who receive them.

Other Benefits or Income Can Affect Beneficiaries' Economic Security

In addition to the cash benefit, receipt of an SSI benefit can serve as a gateway to other benefits that provide additional support and meet basic needs. Perhaps the most important benefit is Medicaid, for which nearly all SSI beneficiaries are eligible. State supplementation, discussed above, is another example. In addition, nearly all SSI beneficiaries are eligible for food stamps, although the cash value of the food stamps is often modest.

Depending on living arrangements, income, and assets, SSI beneficiaries may also qualify for housing assistance, free or reduced-price school breakfasts or lunches, or energy assistance. Those benefits do not reduce SSI benefits.

State Supplements and Food Programs Are the Most Common Forms of Public Assistance

For a variety of reasons, few SSI beneficiaries receive nonhealth public assistance except for state supplementation and two food and nutrition programs. Programs such as housing and energy assistance are capped entitlements in which the availability of benefits is limited because of funding. Applicants may not receive assistance even though they may meet eligibility criteria. Long waiting periods for housing assistance are common, and energy assistance funds are awarded on a first-come, first-served basis.

As one can see in Table 2-3, food stamps and the National School Breakfast/Lunch programs are the only other nonhealth programs (besides state supplements) in which SSI beneficiaries participate in substantial numbers. The table below indicates that just over one-third of children under 18 and about half of adults receive them. Even though most SSI beneficiaries probably qualify for food stamps, some qualify for such small amounts that the burden of applying for the benefit may exceed the gain. Other beneficiaries may find that their disability or transportation problems make it too difficult to access the benefits. These issues, however, do not affect SSI child beneficiaries' participation in the National School Breakfast/Lunch programs. More than three-quarters of SSI children under 18 receive free or reduced-price meals.[7] Many fewer SSI beneficiary households (about 10 percent) participate in housing or energy assistance programs.

As shown in Table 2-4, only a tiny percentage of SSI beneficiary households participate in multiple assistance programs. About 6 percent of SSI beneficiary households receive both housing and food stamps, and about 1 percent receive housing, food stamps, and energy assistance.

Table 2-3.
Percentage of SSI beneficiaries whose households receive benefits from selected nonhealth public assistance programs, by age, March 1997

Source of support	All	Under 18	18-64	65 and over
Persons (millions)[a]	6.4	1	3.7	1.7
Energy assistance[b]	11	10	11	11
Food stamps[b]	49	37	51	51
Housing assistance[b]	9	10	9	9
School breakfast/lunch[c]	d	75	0.7	d

SOURCE: Data are derived from Wave 4 (March 1997) of the 1996 Survey of Income and Program Participation matched to SSA administrative records.

a. Total derives from a sample of matched records and does not correspond exactly to the number of SSI beneficiaries based on administrative records.

b. Percentage of SSI beneficiaries in households that receive benefits.

c. Percentage of SSI beneficiaries who receive benefits.

d. Only children age 18 or under are eligible for the National School Breakfast/Lunch programs.

[7] Children in families with incomes of up to 130 percent of poverty guidelines are eligible for free meals; those whose family incomes are up to 185 percent of poverty guidelines qualify for reduced-price meals.

Table 2-4.
Percentage of SSI beneficiaries whose households also participate in multiple nonhealth, means-tested programs, by age, March 1997 (percent)

Age	Housing and energy assistance	Housing and food stamps	Housing, food stamps, and energy assistance	Food stamps and energy assistance
All	1.3	6.0	1.0	7.4
Under 18	1.8	6.9	1.6	7.0
18-64	1.3	5.9	0.8	7.8
65 and over	1.1	5.6	1.0	6.7

SOURCE: Data are derived from Wave 4 (March 1997) of the 1996 Survey of Income and Program Participation matched to SSA administrative records.

Most Income Results in Offset of SSI Benefits

If the beneficiary does have other income such as Social Security benefits or a pension, SSI law requires an offset of that income. That includes income of a spouse or parent, a portion of which may be deemed to be the income of the beneficiary. For unearned income, the beneficiary is allowed to exclude only $20 of the other countable income per month before benefits are reduced. For earned income, the offset rules allow the beneficiary to exclude the first $65 per month of earned income ($85 if there is no unearned income) plus $1 for each $2 earned above that amount before benefits are reduced. However, only about 4.5 percent of beneficiaries have earned income from their own employment; generally, those receiving benefits are not working at all. These income exclusion amounts are statutory and have not been updated for inflation since the beginning of the program.[8] Consequently, although the basic benefit rate has kept pace with inflation through indexing, the value of the exclusion amounts has eroded over time, reducing the worth of beneficiaries' net income.

If the $20 general income exclusion had been indexed to the consumer price index (CPI-W), its current amount would be $80. The $65 earned income exclusion, had it been indexed, would be $260 now. If the resource limits had been indexed, they would now be $6,000 for an individual and $9,000 for a couple.

In light of most beneficiaries' total dependence on their SSI income, assessing the adequacy of the SSI benefit becomes even more important.

[8] For a more complete discussion of SSI exclusions, see SSA's report to Congress, *Report on Supplemental Security Income: Income and Resource Exclusions and Disability Insurance Earnings-Related Provisions* (March 2000).

Policy Options to Enhance Benefit Adequacy

The evidence presented shows that while SSI can help recipients maintain independence and permits access to additional programs of support, a significant proportion of SSI beneficiaries remain below poverty thresholds. Measures to enhance benefit adequacy could significantly improve the lot of current beneficiaries. Measures to raise the basic benefit rate above the cost-of-living adjustment (COLA) increases required by law and to raise the earned and unearned income exclusion levels are outlined below.

In addition to the value of cash support, status as an SSI beneficiary can ease access to other support programs such as Medicaid, food stamps, and housing assistance. Raising the benefit level, exclusion amounts, or both could permit other low-income individuals to obtain a small cash benefit and gain access to other benefits. As shown in Table 2-5, there are about 2.6 million retired workers and almost 700,000 disabled workers with Social Security benefit amounts between $500 and $600 monthly who might be eligible for SSI benefits if the federal benefit rate (FBR) or exclusion amounts were increased by the amounts in the options discussed below, assuming that other factors of eligibility were met.

This report presents four options for enhancing benefit adequacy. The options would:

- Increase the general income exclusion (GIE) and index it to the CPI-W,
- Increase the federal benefit rate and eliminate the GIE,
- Increase the earned income exclusion and index it to the CPI-W, or
- Increase the countable resource limit and index it to the CPI-W.

Table 2-5.
Number of retired and disabled workers receiving monthly OASDI benefits between $500 and $599, December 1998

Monthly benefit	Total	Retired workers	Disabled workers
$500-$549	1,669,000	1,321,000	348,000
$550-$599	1,626,000	1,284,000	342,000

SOURCE: Social Security Administration, *Annual Statistical Supplement* to the *Social Security Bulletin,* 1999.

Each option includes poverty figures for the SSI aged population derived from an SSI eligibility model that is based on the 1990 Survey of Income and Program Participation (SIPP) matched to SSA administrative records. The model estimates how each option would affect poverty rates and the poverty gap.[9]

The first three options increase income and thus decrease impoverishment for some portion of the SSI population. Those options help SSI beneficiaries move up the economic ladder by closing the poverty gap but do not by themselves lift large numbers of beneficiaries above the poverty line because SSI benefits alone supply incomes well below poverty thresholds. However, narrowing the poverty gap bolsters antipoverty efforts by increasing the likelihood that SSI benefits, when coupled with other public benefits, would lift SSI beneficiaries out of poverty.

For several reasons, the options presented do not include one that would increase the federal benefit rate to 100 percent of poverty thresholds. While half of SSI families have incomes below the poverty threshold, the other half are already above it. Beneficiaries in states with high state supplements—such as California, the state with the largest percentage of SSI beneficiaries—are already near the poverty line. Most SSI beneficiaries are also eligible for other sources of support such as food stamps. Finally, bringing the FBR to 100 percent of the poverty threshold would require a 30 percent increase, or over $200 a month for an individual. Such an option would be very costly.

The options are discussed in detail in the following sections. Their costs and effects are summarized in Table 2-6.

Option 1. Increase the General Income Exclusion (GIE) to $80 and Index It to the CPI-W

This option would restore the original value of the GIE and would reinforce its role as reward for past connection to the workforce. Indexing the exclusion would ensure that it maintained its value in the future. The option would not help the 54 percent of beneficiaries without other income, but it would benefit about 41 percent of current beneficiaries who receive unearned income based on past work or who are the dependents or survivors of someone who worked. It would also benefit those who now earn income but have no unearned income, because any part of the GIE not applied

[9] The model is the SSI Financial Eligibility Model, developed by SSA's Division of Policy Evaluation, Office of Research, Evaluation, and Statistics, Office of Policy. A portion of the effect stems from an increase in the number of elderly people who would become eligible for SSI. The model cannot predict the number of persons with disabilities who would become eligible as a result of these options, nor can it estimate effects on children aged 18 and under.

The percentage-point change in the poverty rate is calculated as the difference between the poverty rate under the current program rules and the poverty rate under simulated program rules. The poverty gap is the difference between family income and the family-specific poverty threshold, aggregated across all individuals in the relevant group. For example, the poverty gap between the FBR for an individual who lives alone and has no other income (71 percent of the poverty threshold) and the poverty line is 29 percent.

Table 2-6.
Estimated costs and enrollment effects of four options to enhance benefit adequacy

Option	Cost (billions of dollars)[a]		Number of beneficiaries affected (millions)	
	1st year [b]	5 years	Current beneficiaries	New beneficiaries[c]
1. Increase GIE to $80 and index	1.5	11.3	2.6	0.6
2. Increase FBR by $50/75 and eliminate GIE	2.6	18.9	6.2	0.6
3. Increase EIE to $260 and index	0.3	2.5	0.3	0.2
4. Increase resource limit to $3,000/4,500 and index	<0.05	0.1	d	0.05

a. Actuarial estimates as of July 27, 2000.

b. Costs for the first year are partial costs since estimates assume that the proposals are phased in over the last 9 months of the year.

c. Estimated number added in the first full year of implementation (actuarial estimates as of March 24, 2000); adding new beneficiaries would also mean increased administrative costs.

d. All current beneficiaries may accumulate higher resources.

to unearned income is excluded from earned income.[10] It could also extend program eligibility to many former workers whose Social Security benefits are close to the SSI income limit.

This option would substantially reduce the poverty gap among elderly SSI beneficiaries and for the elderly overall, by nearly 27 percent and over 8 percent, respectively. Further, it would lift about 35,000, or about 1.7 percent, of elderly SSI beneficiaries above the poverty line.

Option 2. Increase the Federal Benefit Rate (FBR) by $50 for an Individual ($75 for a couple) and Eliminate the GIE

Increasing the FBR would reduce poverty by increasing income for all beneficiaries, including the 54 percent who have no other income. Simultaneously eliminating the GIE would reduce the initial cost of this option. The amount of the increases would bring individuals close to 80 percent of poverty thresholds, couples to 92 percent. When added to state supplements and other benefits such as food stamps, this option would lift a substantial portion of the SSI population above poverty thresholds.

[10] About 5 percent of SSI beneficiaries receive unearned income that is not subject to the GIE. Benefits from the Temporary Assistance for Needy Families (TANF) program and means-tested veterans' benefits are examples of this type of income, which reduces SSI income dollar for dollar.

In the long run, those who lost the exclusion would benefit more by the elimination of the GIE and increased FBR. That is because the GIE is not indexed for inflation, so every year, it loses value. However, incorporating the current GIE ($20) into the FBR would ensure that its purchasing power would keep pace with future increases in the cost of living. While eliminating the GIE also simplifies the program by making it easier for SSA to explain and beneficiaries to understand, it also means that small amounts of income that are now excluded would have to be verified and recorded.

This option would narrow the poverty gap among elderly SSI beneficiaries and for the elderly overall, by over 18 percent and 5.6 percent, respectively. It would lift about 6,000, or 0.28 percent, of elderly SSI beneficiaries above the poverty line.

Option 3. Increase the Earned Income Exclusion (EIE) to $260 and Index It to the CPI-W

Increasing the EIE would reward beneficiaries who are now working and would make it possible for some to increase their work efforts. Congress intended to reward work activity by having a higher exclusion amount and other preferential treatment for earned income. The $260 amount compensates for inflation since 1972, and indexing would prevent future loss of value. Although only about 4.5 percent of SSI beneficiaries overall have earned income, about 7 percent of the disabled SSI population have earned income. In addition, a higher EIE would increase the income available for SSI children whose parents have earned income. Furthermore, it could simplify SSA development and recordkeeping requirements because beneficiaries could earn more without affecting their SSI payments, but it could result in a greater workload as more people become eligible for SSI.

This option would do much less to close the poverty gap among elderly SSI beneficiaries (3.5 percent) and for the elderly overall (1 percent) than the two options described above. On the other hand, it would lift more people—about 38,000, or almost 2 percent, of elderly SSI beneficiaries—above the poverty line.

Option 4. Increase the Countable Resource Limit to $3,000 for an Individual ($4,500 for a Couple) and Index It to the CPI-W

These amounts represent half of the inflation-adjusted value of the program’s original resource limits. But indexing would prevent future erosion in value caused by inflation. Increasing the resource limit would allow current beneficiaries to accumulate additional resources without losing eligibility. It would also allow low-income persons whose resources are close to the limit to take advantage of the program without having to liquidate assets that may have taken a lifetime to accumulate. Resource limits have been increased once (with the increase phased in over 5 years) since the SSI program began, but they are not indexed for inflation. Thus, the real value of the limit decreases every year.

This option enhances self-sufficiency because those who have or accumulate more resources are better able to cover unforeseen expenses that they otherwise would be unable to meet. For example, greater resources would allow beneficiaries the means to pay for occasional or emergency expenses such as household repairs.

This change would affect the resource limit but not SSI benefits and household income for current participants. The option does not lift SSI beneficiaries above poverty thresholds; however, it does reduce the poverty gap by 0.3 percent for elderly SSI participants and by 0.2 percent for the elderly population as a whole. The reductions occur because newly eligible participants boost the economic well-being of the SSI population overall, although the increase in household income for the new SSI participants is not sufficient to change their poverty status.

Options Satisfy Different Policy Objectives to Different Degrees

Reducing Poverty

A basic goal of the SSI program is to reduce poverty among a vulnerable population. Of the above options, increasing the FBR and eliminating the GIE would relieve poverty for the largest group. Virtually all current beneficiaries would experience an increase in benefits; for individuals, the FBR would increase from 71 percent to 78 percent of the poverty threshold; for couples, from 84 percent to 92 percent.

Increasing the GIE would improve the poverty status of about 41 percent of SSI beneficiaries who have unearned income subject to the GIE. Of those beneficiaries who qualified for the full amount (about 75 percent of those with unearned income), individuals would rise to 83 percent of poverty thresholds and couples to 93 percent.

Both increasing the FBR (and eliminating the GIE) and increasing the GIE would substantially reduce the poverty gap—by more than a quarter and almost a fifth, respectively—for the SSI population. Each of these options represents a significant step toward improving the circumstances of SSI beneficiaries.

Increasing the EIE would reduce poverty for only about 4.5 percent of beneficiaries who have earned income, although the proportions of disabled adults aged 18-64 (7 percent) and children (about 10 percent, through exclusions applied to parental income) who would benefit are higher. Both individuals and couples who could benefit from the full exclusion would be lifted above 100 percent of the poverty line. Finally, while increasing the resource limits would not raise current beneficiaries' income, it would reduce poverty among low-income individuals whose assets are near the limit by allowing them to qualify for the program. It would also enhance self-sufficiency by allowing beneficiaries to retain additional means to pay for emergency needs.

Rewarding Work and Simplifying the Program

Besides reducing poverty, other important goals to consider involve rewarding work and simplifying the program. The options to increase the GIE and the EIE would both greatly enhance the monetary reward for people who worked in the past, are dependents of someone who worked, or are now working. Because those exclusions are not indexed for inflation and have never been increased, their value has declined considerably. Congress originally established the GIE specifically to recognize past work effort.

None of these options focuses on program simplification, although two contain elements that would contribute to that goal. If the EIE was increased to its fully indexed amount, beneficiaries could earn four times more money without triggering a benefit reduction, thus reducing the potential for overpayments. Part of the option to increase the FBR would eliminate the GIE, making the program easier for SSA to explain and beneficiaries to understand because all unearned income would be counted in determining benefit amounts.

In sum, all of the above options reduce poverty to some degree; two of them substantially narrow the poverty gap for the elderly. All would also allow additional low-income people to qualify for the SSI program. Increasing the FBR (and eliminating the GIE) helps the poorest beneficiaries, relieves poverty for the greatest number of people, and makes the program easier to understand; however, it does not directly reward work and is by far the costliest option. Increasing the GIE reduces poverty for two-fifths of current beneficiaries and rewards work effort, but it does not help the neediest or simplify the program; it is also relatively expensive. Increasing the EIE helps far fewer people but raises them above the poverty threshold and encourages work; it is also relatively inexpensive. Finally, increasing resource limits does little to help those now on the rolls, but it reduces poverty for low-income people close to the limits for little cost by allowing them into the program.

Chapter 3

Opportunities for Simplifying the SSI Program

This chapter reviews the complexity of selected SSI program rules and procedures and identifies where simplification might be possible.

No comprehensive policy-oriented review of the SSI program can ignore the issue of program complexity. Program complexity has been an articulated concern in external and internal reviews from the 1975-1977 Senate Finance Committee Staff review through the Social Security Advisory Board's 1999 statement of views.

As the Advisory Board states: "Both SSA employees and SSI claimants and beneficiaries agree that SSI rules are overly complex. They are difficult to comprehend and difficult to administer. Complexity contributes to errors in payments, which can cause hardship and frustration for beneficiaries and further add to the agency's workload."[1]

The discussion below treats simplification as an initiative to promote improved public service and public understanding of the program as well as to facilitate the administration of the program.

Complexity Is Unavoidable in Any Means-Tested Program

Some degree of complexity in the SSI program is not necessarily a problem, and simplification cannot be the sole goal of a policy review. Determining eligibility and benefit amounts in a means-tested program is inherently a complex process. Every means-tested program, by definition, requires at a minimum that the beneficiary meet some sort of income test.

Complexity in the SSI program goes beyond an income test. The program's complexity is rooted in the requirement to determine eligibility and payment amount based on a set of rules for income, resources, and living arrangements and, for beneficiaries under 65, a disability requirement. For example, the initial interview for some applicants involves answering over 100 questions, and many answers require supporting documentation.

The program is also responsive to the beneficiaries' changing needs and requires that they report even seemingly minor changes, such as receipt of small gifts of cash or clothing, that may affect their eligibility or the amount of their monthly benefit. In FY 1999, the agency processed over 20 million reported changes.

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[1] Social Security Advisory Board, Statement on the Supplemental Security Income Program, printed in *Annual Report of the Supplemental Security Income Program* (May 1999), p. 5.

The term program complexity may mean different things to different people. Our customers may define program complexity by referring to the extensive documentation that the program requires. Employees may describe program complexity by the lengthy procedures that they must follow to determine eligibility and benefit amounts. Program complexity for both customers and SSA employees refers to the extent and intensity of their effort in these determinations. Oversight authorities may view these procedures as the means to ensure program integrity.

Complexity Results from Pursuing Program Goals

SSI requirements stem from a continuous effort to pursue current objectives:

- Benefit adequacy: ensuring a minimum level of income for the blind, disabled, and aged to meet basic necessities of living,

- Benefit equity: ensuring by objective criteria that people with like income and resource levels are treated in the same way, and

- Program integrity: making sure that benefits are paid accurately and efficiently and with no tolerance for fraud.

There is tension between program simplification and these underlying objectives. For example, eliminating some requirements related to verifying income or resources would simplify the program. However, such simplification would be contrary to the agency's commitment to program integrity. The challenge of program simplification is to make the program less complex while supporting the program objectives at least as well as current policies do.

Reasons for Selecting Policies for Analysis

Some sets of policies may have a greater degree of program complexity than is necessary for SSA to serve the public most efficiently. The chapter focuses, therefore, on three policies for which the cost of the complexity does not seem warranted by its benefits and for which there may be a significant payoff from program simplification. The three policies chosen for analysis, and the reasons for their selection, are:

- **Estimating and verifying wages.** Wages have been the leading source of overpayment dollars for the past 9 years. Overpayments are burdensome for SSI beneficiaries since recovery can result in long-standing reductions in the amount of benefits paid. It appears that policy changes in how wages are accounted for can lead to significant reduction of effort for both beneficiaries and the agency in this area. Any concomitant reduction in overpayments would be a benefit as well.

- **Changing or consolidating resource rules.** Resources have been the second leading source of overpayment dollars for the past 2 years. Again, the effects of resource-related overpayments and suspensions of eligibility can create economic hardship for SSI beneficiaries. Also, the structure of resource exclusion rules tends to encourage particular resource-holding patterns that may not be optimal for the beneficiary.

- **Benefit reductions for individuals receiving in-kind support and maintenance (ISM).** Although ISM is no longer a leading cause of overpayment dollars as it was in the 1980s, it nevertheless continues to be regarded as a significantly complex set of policies. This policy may also discourage families from providing shelter and assistance to beneficiaries.

The amount of work involved in implementing these policies is not evenly distributed across cases. Table 3-1 shows percentages of three major workloads that require development of in-kind support and maintenance, wages/self-employment earnings, or resources.[2] The largest workload—claims based on blindness or disability—is the least likely to require development of resource issues, in comparison with ISM or wage issues.

Claims based on blindness or disability, which account for approximately 90 percent of all claims, require resource development in 14 percent of cases. In comparison, claims based on age are more than three times as likely to need resource development, but they make up only 10 percent of all claims.

Table 3-1.
Percentage of workloads requiring issue development

Workload	ISM	Wages/self-employment	Resources
Post-eligibility reviews of all eligibility issues	19	44	15
Claims based on age	29	16	44
Claims based on blindness or disability	23	19	14

[2] Information on the workload associated with these policies was developed from a recent 1-week sample survey of field offices that was designed to provide an "order-of-magnitude" national measure of the time spent developing certain income and resource information in the SSI program. The survey included 28 offices and approximately 700 field office employees.

Table 3-2.
Minutes spent per case in issue development

Workload	ISM	Wages/self-employment	Resources
Post-eligibility reviews of all eligibility issues	23	38	27
Claims based on age	15	18	37
Claims based on blindness or disability	23	34	23

As shown in Table 3-2, it generally takes more time to request, receive, and process the information on wages and resources than to do so for in-kind support and maintenance. That is particularly true for claims based on age, which are more than three times as likely as other workloads to involve potentially excludable resources, such as life insurance, burial spaces, and other noncash property.

Estimating and Verifying Wages

If simplification can reduce overpayments, wages are the place to start. "Wages continue to be the leading cause of overpayment deficiencies in FY 1999, accounting for a projected $468.5 million in deficiencies. In the preceding fiscal year, $521.5 million in overpayment deficiencies were associated with wages. In both years, approximately one-quarter of all overpayment deficiency dollars was attributed to wages."[3] Reducing overpayments in this area could also have the important effect of making work more rewarding and less burdensome for SSI beneficiaries. However, it is important to also be sensitive to the economic effect on beneficiaries of changes in income rules, and our analysis addresses that as well.

The SSI program places limits on the amount of income a person may receive while eligible for benefits. Wages exceeding $65 per month received by the beneficiary, the beneficiary's spouse, or a child beneficiary's parents may reduce SSI benefits. Usually, half of wages above $65 per month reduce payable benefits.

While the rules regarding countable wages are relatively straightforward, the process of estimating and verifying wages is administratively burdensome for employed beneficiaries, employers, and the agency. Current policy requires the worker to save all paystubs for extended periods of time, sometimes up to 2 years. It also requires SSA employees to review up to 52 paystubs per year and calculate the exact amount paid each month.

[3] Social Security Administration, Office of Quality Assurance and Performance Assessment, Stewardship Report, Supplemental Security Income, Fiscal Year 1999 (October 2000), p. 4.

If the worker does not retain the paystubs, the agency asks the employer to review wage records and report the amount paid each month. Employer compliance is voluntary; however, most employers provide the information. Unless the employer pays workers on a monthly basis, he or she must review all paydays during the review period or provide a payroll printout to fulfill the request, even though the employer already submits annual earnings reports to the agency.

Wage income fluctuates more than other types of income. Most often, wages are paid weekly or biweekly; therefore, estimating and verifying monthly income are time-consuming and error prone because the number of paydays per month varies. Documentation requirements are a significant source of beneficiary and SSA staff complaints. A potential policy change to mitigate that problem would be to average wages over a period of employment.

Options for Simplifying the Estimating and Verification of Wages

SSA analyzed two options for simplifying this policy area.

Option 1. Assign wages to a month using the average wage over the number of months worked at a specific job or over the calendar year, whichever is less, or

Option 2. Assign wages to a month using the average wage over the calendar year.

Under both options, future wages would be estimated on the same basis.

Either method would reduce the effort expended by the beneficiary, the SSA employee, and the employer in determining monthly benefit amounts. SSA conducted a simulation of the methods based on a sample of beneficiaries. The analysis indicates that under both options, most beneficiaries would experience little or no change in the annual amount of their SSI benefits. Generally, beneficiaries who would experience increases in annual benefits are those with lower incomes. Beneficiaries who would experience decreases are generally those with higher incomes. The program cost would be negligible under either option.[4]

Analysis and Comparison of Options

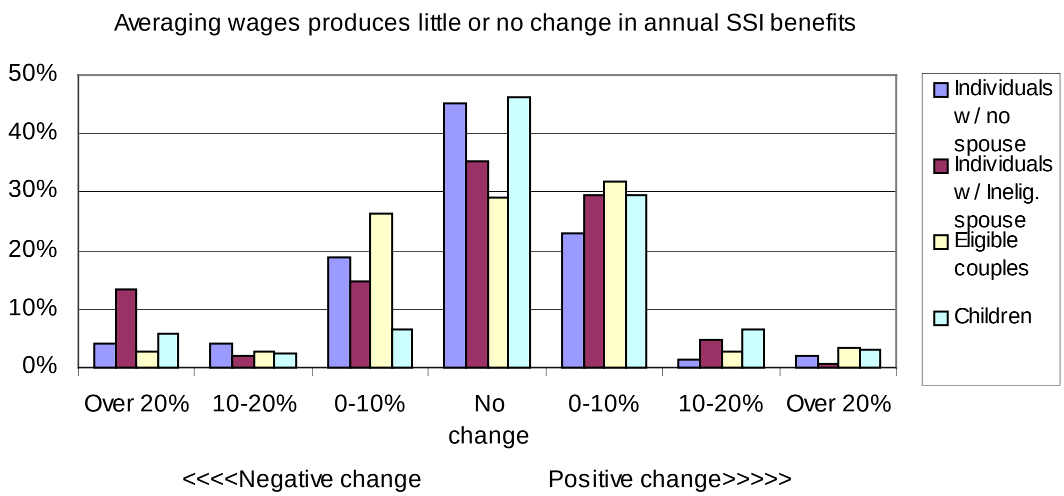
Both Options 1 and 2 simplify administration because beneficiaries and the agency would be able to use end-of-year statements (for example, last paystub, W-2 form) to verify wages rather than reviewing numerous paystubs. Option 2 provides more administrative simplicity than Option 1 because the agency would not need to confirm dates of employment or average wages over several periods when a worker switches jobs or does not work the entire calendar year at one job. The options also correspond more closely

[4] Based on a limited simulation by the SSA Office of Policy.

with the annual wage reports employers send to SSA. By simplifying reporting requirements, the options would also encourage beneficiary work efforts.

Most beneficiaries would receive the same or nearly the same annual benefits as under current policy. About 80 percent to 90 percent of cases involving wages (depending on the type of case) would experience no change or a change of less than 10 percent in their annual benefits under Option 1 (see Chart 3-1). The majority of cases involving wages—50 percent to 70 percent—would experience no more than a 1 percent increase or decrease in benefits.[5] In a small fraction of the cases included in the positive or negative 0-10 percent range, rounding of the wages resulted in an increase or decrease in benefits.

Chart 3-1.
Distribution of beneficiaries with wages or deemed wages experiencing a change in benefits under Option 1, by percentage change in benefits



Beneficiaries with low wages would generally be better off under wage averaging. Cases involving earnings that fluctuate around $65 to $85 per month would have more wages fall within the earned income exclusion under these options. For example, under current law, a beneficiary whose only income is fluctuating wages of $50 some months and $100 other months cannot take full advantage of the earned income exclusion and the general income exclusion ($65 and $20 per month, respectively) in the lowest months. The unused amount of the exclusion does not carry over into months of higher earnings. Under wage averaging, monthly wages would be $66.67 per month, allowing the beneficiary to exclude all wages. Under current wage-posting rules, he or she would

[5] Approximately 72 percent of individuals with no spouse, 50 percent of individuals with an ineligible spouse, 55 percent of children, and 55 percent of couples would experience no change or less than a 1 percent change in annual benefits. Approximately 45 percent of individuals with no spouse, 35 percent of individuals with an ineligible spouse, 46 percent of children, and 29 percent of couples would experience absolutely no change in annual benefits.

have received $5,778 in SSI over the year in 1997.[6] Under Options 1 or 2, that amount would have been $5,808.

In a few cases, beneficiaries would become ineligible in all months. The fraction of beneficiaries who would lose all eligibility under Option 1 is detailed in Table 3-3. Either option could include a provision to ensure that those persons did not lose benefits or Medicaid because of the change. In cases in which the person would lose eligibility during months of work but would have been eligible in some months under current policy, the agency could allow the beneficiary to rebut averaging of wages and instead choose month-by-month posting of wages.

Between 15 percent and 33 percent of beneficiaries would receive lower annual benefits. However, some of them would gain additional months of Medicaid eligibility (see Table 3-3). In 33 states, eligibility for an SSI payment in a month confers automatic Medicaid eligibility for that same month. In another seven states, the state makes the Medicaid eligibility determination using the SSI eligibility criteria. Therefore, increasing the number of months in which persons receive an SSI payment usually increases the number of months in which they are covered by Medicaid. However, in the case of disabled beneficiaries who are working, Medicaid coverage continues if beneficiaries are ineligible for an SSI payment as a result of their own earnings.

If the agency allowed beneficiaries to rebut wage averaging in situations in which they would lose all eligibility during the period worked, then no beneficiaries would simultaneously lose benefits and months of Medicaid eligibility.

Among beneficiaries who would experience reduced benefits but no change in the number of months eligible for payments, the median benefit reduction would be nominal. Therefore, if the agency averaged wages as under Option 1, most beneficiaries would experience either increased benefits or decreased benefits with more months of Medicaid eligibility. The median reduction in benefits among those who would be eligible for payment for the same number of months is 1 percent to 2 percent (Table 3-3).

The options should enable the program to more efficiently target benefits toward persons with lower income. Persons experiencing benefit reductions under Option 1 have higher incomes (and consequently lower benefits) on average than persons experiencing no change or an increase in benefits. For example, individuals who would experience more than a 20 percent reduction in benefits under Option 1 received annual SSI payments of $160 in 1997 (see Table 3-3). Individuals who would experience no change received the highest median benefits under current law because their wages were often too low to affect benefit payment, and they qualified for higher levels of assistance. Individuals who would experience the greatest increase in benefits received higher median current-law benefits than persons experiencing the greatest decrease in benefits. For the latter persons, it is the pattern of income payment, not the high levels of income, that is usually suppressing benefit amounts.

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[6] Simulations were performed using 1997 records to ensure that verified wage data were used.

Table 3-3.
Effects of Option I on benefits and eligibility

	Individual			
	No spouse	With ineligible spouse	Child	Couple
	Beneficiaries with Wages or Deemed Wages Losing All Federal and State SSI Benefits (percent)			
Lose all benefits	2.82	4.67	1.18	0.88
	Reduced Benefits but May Gain Additional Months of Medicaid Eligibility (percent)			
Percentage with reduced benefits	28	30	15	33
Percentage of those with reduced benefits who would gain additional months of Medicaid eligibility	13	36	48	19
Median percentage reduction in benefits	18	23	10	9
	Reduced Benefits but No Change in Months of Eligibility for Federal Benefit (percent)			
Percentage with reduced benefits but no change in months of eligibility	32	32	9	26
Median percentage reduction in benefits[a]	1	2	1	1
	Median Annual Federal Payment (dollars)			
Reduction				
More than 20%	160	808	1,624	612
10 to 20%	1,495	1,465	4,178	1,018
Less than 10%	3,633	3,077	5,329	3,133
No change	5,807	5,808	5,808	1,830
Increase				
Less than 10%	3,785	4,806	5,116	3,579
10 to 20%	1,257	3,877	4,708	1,161
More than 20%	1,313	1,699	3,861	496

a. Including all beneficiaries who would experience benefit reductions regardless of changes in the number of eligible months (including those with complete loss of benefits), the median reductions for individuals with no spouse, individuals with an ineligible spouse, children, and couples are 1 percent, 13 percent, 12 percent, and 2 percent, respectively.

A larger percentage of beneficiaries is generally expected to experience a more substantial change in benefits under Option 2 than under Option 1. That is because wages could be assigned to months in which the worker received no wages. Low-wage workers would be able to use income exclusions both in months worked and months not worked, increasing the total amount excluded. In cases in which wages cause the beneficiary to drift in and out of eligibility, more wages could count under Option 2 than under Option 1 if the worker was not employed during the entire calendar year.

Changing or Consolidating Resource Rules

Current resource rules are intended to provide monthly benefits to persons with the greatest need for assistance. The number of exclusions has increased over time in an effort to meet the needs of beneficiaries and coordinate assistance provided by the SSI program with assistance provided by other programs.

Although the resource limits are clearly defined, the many exclusion rules are difficult for beneficiaries to understand and complex and difficult for SSA staff to administer. Simplification in this area would promote better service and improved public understanding of the program. It could permit beneficiaries to arrange their financial affairs more according to their own needs and desires.

Resource Limits and Exclusions

Resources consist of cash, other liquid assets, and property that an individual could convert to cash. The countable resource limits are $2,000 for an individual and $3,000 for a couple. Beneficiaries may own additional resources that are excluded, such as a home, and for that reason have total resources exceeding those limits.

Many resources are excluded. Some exclusions are time-limited and some are dollar-limited. Home, automobile, personal effects, burial assets, life insurance, and Social Security and SSI underpayments are the more common exclusions.[7]

Complexity alone is not a complete measure of the desirability of a policy or the need for simplification. For example, the simplest approach to resource policy is to completely disregard assets when determining eligibility. That approach eliminates the need for any exclusions. It also eliminates problems with benefit adequacy that result from denial of all benefits when resources only slightly exceed the limit. However, the option would decrease benefit equity, since persons with substantial resources could receive the same level of benefits as persons with few or no resources. It would also be inconsistent with public assistance policies of not providing assistance when needs can be met from other

[7] For a more complete discussion of SSI exclusions, see SSA's report to Congress, *Supplemental Security Income: Income and Resource Exclusions and Disability Insurance Earnings-Related Provisions* (March 2000).

sources. Disregarding resources would probably target additional expenditures toward a population with a lower incidence of poverty than the current SSI population.[8]

Conversely, benefit equity and adequacy could potentially improve if the program linked both eligibility and payment amount to the beneficiary's level of resources.[9] However, that would create a new variable for determining the benefit amount and increase program complexity.

Options for Simplifying Resource Rules

The options fall into two broad categories—requiring either incremental changes or significant restructuring of resource rules. In the first category is the legislative proposal that SSA has sent to Congress to standardize the time periods (to 9 months) for excluding certain payments as a countable resource. That option was also included in the agency's report to Congress titled *Supplemental Security Income: Income and Resource Exclusions and Disability Insurance Earnings-Related Provisions (March 2000).*

Two other options represent incremental changes:

Option 1. Eliminate inquiries into resources that rarely affect eligibility by (1) excluding the value of one car if used for transportation and (2) excluding the entire value of household goods and personal effects.[10]

The SSI program currently excludes one car regardless of value if it is necessary for employment or treatment of a medical problem, modified for a handicapped person, or necessary (because of climate, terrain, distance, or similar factors) for performing essential daily activities. Very rarely does a car not meet one of those criteria. In more than 99 percent of all 1998 SSI cases, the beneficiaries either did not own a car or were able to completely exclude the value of one car.[11] Of SSI cases involving automobile ownership, roughly 98 percent were able to completely exclude the value of one car.

The program also excludes household goods and personal effects up to $2,000 in value. Very rarely do applicants and beneficiaries own household goods or personal items that exceed that value.

Option 2. Combine the separate death exclusions for burial space, burial funds, and life insurance into a single exclusion up to $7,300.

[8] Marilyn Moon. "Supplemental Security Income, Asset Tests, and Equity," *Policy Analysis* (Winter 1980), p. 14, Tables 1 and 2.
[9] Similar to resource policy for the assistance programs of the Department of Housing and Urban Development.
[10] The Notice of Proposed Rulemaking to implement this change was in the clearance process when this report went to press.
[11] Based on additional statistical analysis of the agency's stewardship data for FY 1998.

The resource value that may be excluded for burial under current law depends on the form of the resource. **Life insurance policies** are excluded if the total face value of all policies on a single person does not exceed $1,500. If the total face value exceeds $1,500, the cash surrender value of the policy or policies involved counts as a resource. **Bank accounts, revocable burial contracts, and other funds** may be excluded up to $1,500 each for an individual and spouse, plus accrued interest. The exclusion for burial funds is reduced by the face value of the excluded life insurance. Any amount being held for burial expenses in an irrevocable trust, burial contract, or other irrevocable agreement also offsets the burial fund exclusion. For **burial plots, caskets, headstones, or other space owned,** there is no limit on the excluded amount for an individual and members of the immediate family.

These exclusions and their interactions with one another are often difficult for beneficiaries to understand. In addition, the $1,500 limit applicable to insurance and the $1,500 limit for burial funds have never been adjusted for inflation. If the insurance limit (in effect since 1972) was adjusted, it would be $6,000. If the burial funds limit (in effect since 1982) was adjusted, it would be $2,600.

One way to simplifiy the resource rules and recognize inflation is to combine the three exclusions into one exclusion with a limit of $7,300. That amount represents the average cost of commonly selected funeral items in 1997, allotments for an individual grave space, and the cost of opening and closing the grave space, all indexed according to the CPI-W through the third quarter of 1999. The estimate is a conservative one, since growth in funeral expenses has generally exceeded growth in the CPI.[12]

Another way to simplify resource rules would be to redefine current resource policy. This option provides more simplification than either of the two incremental options, but it would result in higher program costs (see Table 3-4).

Option 3: Increase the resource limit up to $15,300 for an individual ($22,950 for a couple) and eliminate exclusions except for house, automobile, household goods, personal belongings, business property, plans for achieving self-support (PASS), and dedicated accounts.

This option would eliminate exclusions for burial funds, burial space, life insurance, non-business property for self-support, Social Security and SSI retroactive payments, certain housing assistance, earned income tax credits, state crime victim's assistance, and state or local relocation assistance. It would not eliminate resource exclusions provided in federal statutes other than the Social Security Act. The proposed amount is high enough to include most or all of the value of some currently excluded resources.

[12] According to the National Funeral Directors Association, the average cost of a funeral was approximately $5,500 in 1997. The cost of individual grave spaces ranged from $150 to $1,900, and the cost of opening and closing the grave ranged from $125 to $750. The $7,300 includes a plot costing $1,000 and opening/closing costs of $400.

Table 3-4.
Summary of resource options

Option	5-year program cost
1. Exclude one car and the entire value of household goods and personal belongings	Negligible
2. Combine the separate exclusions for burial space, burial funds, and life insurance into a single exclusion up to $7,300	Less than $50 million
3. Increase resource limit to $15,300/$22,950 and streamline exclusions	$1.9 billion

Increasing the resource limit and eliminating some exclusions would permit beneficiaries to decide how best to arrange their financial affairs rather than being constrained by the rules of the program into arranging the same total value of assets into structures that may not be best for their needs.

Benefit Reductions for Individuals Receiving In-kind Support and Maintenance

As noted earlier, policies associated with ISM are not a major cause of overpayments. Nevertheless, the policies continue to be cited as overly complex. The Social Security Advisory Board noted:

> Over the longer term, the agency should examine areas of greater complexity that involve more substantive change. An example is the SSI rules that apply with respect to living arrangements and in-kind support and maintenance…. There are 186 pages of instructions that field office employees are required to follow on this subject alone. SSA employees have always had difficulty explaining the rules to claimants and have also found them difficult to apply.[13]

In-Kind Support and Maintenance

In-kind support and maintenance is noncash income in the form of food, shelter, or clothing. The rationale for reducing benefits on the basis of receipt of such income is that

[13] Social Security Advisory Board, Statement on the Supplemental Security Income Program, printed in *Annual Report of the Supplemental Security Income Program* (May 1999), p. 6.

beneficiaries receiving such assistance need less help meeting their basic needs than persons who do not receive such support. The agency's two methods for determining the value of in-kind support and maintenance—the value of the one-third reduction (VTR) and the presumed maximum value (PMV)—have been the subjects of prior reviews. They have been frequently cited as being prone to errors.

The Social Security Act states that individuals (and their eligible spouse, if any) living in another person's household and receiving support and maintenance in kind from the household shall have the federal benefit rate reduced by one-third rather than calculating the exact value of the support to determine benefits. In crafting the legislation, the House Ways and Means Committee and the Senate Finance Committee indicated that the one-third reduction would apply regardless of whether the beneficiary made any payment.[14]

Although the provision was intended to provide administrative expediency by eliminating the need to determine the exact value of support received, it did not take into account the differences in individual circumstances of SSI beneficiaries. Since not all beneficiaries have living arrangements fitting the situation described in the statute, SSA developed two basic methods for placing a value on in-kind support and maintenance.

> **The Value of the One-Third Reduction Rule (VTR)**. Beneficiaries who live in another person's household and receive both food and shelter from within the household are subject to the VTR. Rather than determining the actual dollar value of in-kind support and maintenance, SSA counts one-third of the FBR as income for those individuals. This rule applies in full or not at all. If an individual pays at least a pro rata share of household food and shelter expenses or is liable for all or any part of the rental charges, he or she is not considered to be living in another person's household.
>
> **The Presumed Maximum Value Rule (PMV).** This rule applies whenever an individual or couple receives food, clothing, or shelter and the VTR does not apply. The PMV also applies in situations in which an individual lives in another person's household but does not receive both food and shelter from that person, or lives in his or her own household and someone outside the household provides in-kind support. SSA considers the maximum value of the support to be one-third of the federal benefit rate plus $20 (the general income exclusion.) An amount less than the maximum may be used to calculate benefits if the beneficiary can show that the actual value of in-kind support is lower than the presumed maximum value amount.

A perfect simplification strategy for ISM does not exist. About 8 percent of the SSI population (502,000 individuals) are charged with ISM in the form of the VTR or PMV. Forty-seven percent of all SSI beneficiaries live in families with income below 100 percent of the poverty threshold, compared with only 22 percent of beneficiaries

[14] United States Senate Finance Committee, S. Report No. 92-1230 (1972), p. 388; United States House Ways and Means Committee, H. Report 92-231 (May 26, 1971).

receiving ISM. Those percentages suggest that beneficiaries who receive ISM rely less on SSI to meet their basic needs. A simplification strategy that results in higher benefits for those receiving ISM is in effect directing assistance to perhaps a less needy portion of the SSI population. On the other hand, charging ISM may discourage family members from assisting low-income relatives on SSI since it nullifies all or part of their effort to assist.

However, there may be ways to simplify the current policy and still achieve the objectives of the program. Analysis of the options below indicates tradeoffs between reducing complexity and furthering program objectives.

Options for Simplifying the Treatment of ISM

The treatment of ISM could be simplified in a variety of ways. The six options analyzed by SSA are described below, and their effects are summarized in Table 3-5. All of the options have a net increase in administrative work-years and costs because the administrative savings are more than exceeded by the administrative costs of processing the additional claims that are projected to result from the policy change.

Option 1. Eliminate the counting of ISM.

Under this option, only cash income (earned and unearned) would count in determining the SSI benefit amount, and the one-third reduction provision would be repealed. SSA would not ask about in-kind support received from household members or from anyone outside the household. The agency would adopt a definition of income that is more compatible with that of other means-tested programs. (Neither the Food Stamp nor Veterans Pension Benefits programs count ISM as income.)

This option would achieve the most simplification but would cost more than $6 billion over 5 years. Payments might be more accurate since changes in living arrangements would not affect the benefit amount. Beneficiaries would need to report fewer changes in household status, and SSA would verify only cash income.

The result of eliminating the counting of ISM would be that individuals who received free room and board would receive the same level of benefits as someone who lived alone and relied entirely on SSI to meet all needs. Help from family members with rent or food would no longer affect benefit amounts.

Option 2. Eliminate the counting of ISM for the elderly.

Beneficiaries over age 65 are more likely to be under the poverty threshold than are younger beneficiaries. For example, 58 percent of beneficiaries who are age 65 or older live in households with income under the poverty threshold, compared with about 40 percent of other SSI beneficiaries.

Eliminating ISM for the elderly reinforces the societal goals of familial self-reliance and charity by allowing family members to assist elderly relatives without affecting their benefits. Although SSA staff would no longer need to complete determinations for living arrangements and in-kind support for the nearly 2 million beneficiaries age 65 or older, this change would not simplify the process for the other 4.6 million beneficiaries. It would raise program costs by more than $2 billion over 5 years.

Table 3-5.
Comparison of options to simplify ISM

Option	1st-year administrative costs		5-year program cost(-)/savings (Billions of dollars)	Current beneficiaries affected	New beneficiaries[a]
	Work-years	Millions of dollars			
1. Eliminate counting of ISM	968	76	-6.4	517,000 increases	155,000
2. Eliminate counting of ISM for those over 65	557	44	-2.5	189,000 increases	83,000
3. Simplify definition of ISM	384	30	-2.3	164,000 increases	49,000
4. Value ISM at 1/3 of FBR	37	2	.08	29,000 increases; 160,000 decreases	1,000
5. Use flat rate method to get pro rata share	884	69	-5.3	402,000 increases	121,000
6. Reduce benefits of those living with an adult by 5 to 10	2,411	189	-5.6 (5%); -0.4 [b] (10%)	1.1 million increases; 2.6 million decreases; 90,000 to 307,000 ineligibles	232,000

a. Estimated number added in the first full year of implementation.

b. Based on an earlier (1998) actuarial estimate for a proposal that included features not included in this option.

Option 3. Simplify the definition of ISM.

This option would maintain the current rules for calculating living arrangements and ISM. However, it would modify the regulations that define ISM as food, clothing, or shelter and that specify what is considered as shelter.

Excluding clothing as income or ISM would make the SSI program's definition of income more compatible with that of other means-tested programs. It would be a small step toward simplifying the SSI program, by counting as ISM those items that are likely to provide the greatest benefit, are received regularly, and are easier to verify.[15]

The definition of household expenses would be simplified by retaining four items now used in the pro rata determination (food, rent, mortgage, and taxes) and eliminating six (heating fuel, gas, electricity, water, sewerage, and garbage collection). Those changes might reduce overpayments that often result from improper counting of shelter items. However, they would not simplify the two rules used to count ISM and would increase program costs.

Option 4. Value all ISM at the lesser of its actual value or one-third of the applicable FBR.

This option would use one rule for all cases and eliminate the automatic one-third reduction provision in the law. The amount of countable ISM would not be subject to the $20 general income exclusion. The change would result in benefit increases for an estimated 29,000 beneficiaries and decreases for an estimated 160,000.

This change would eliminate the need to determine whether an individual is living in another person's household. An individual would no longer meet his or her pro rata share by earmarking a contribution specifically to either food or shelter. Although this option would streamline the process of determining whether an individual shares household expenses, it would require additional work in some cases since the actual value of ISM would be calculated for persons currently subject to the one-third reduction. This change is estimated to save $82 million over 5 years.

Option 5. Reduce payments by up to one-third of the FBR for beneficiaries who do not contribute a flat-rate amount toward household expenses.

This policy option would deem the pro rata share to equal one-third of the FBR rather than calculate the beneficiary's per capita share of household expenses. As long as a beneficiary contributed at least one-third of the FBR toward household expenses, he or she would not be receiving ISM.

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[15] The Notice of Proposed Rulemaking to implement this change was in the clearance process when this report went to press.

SSA employees would no longer need to ask how many people live in the household or to calculate total monthly household expenses. However, persons who spend their entire benefit payment on basic needs might receive the same benefit amount as someone who receives a great deal of other support. In addition, costs would increase by an estimated $5 billion over 5 years.

This option would pay identical benefits to persons making identical payments toward household expenses. On the other hand, the beneficiary could receive help from within or outside the household without a reduction in benefits.

Option 6. Reduce the benefits of beneficiaries living with an adult by a specific amount (5 percent to 10 percent of the FBR).

Beneficiaries living with an adult would be paid a reduced benefit based on a percentage of the FBR. This option follows the rationale that people living together and sharing household expenses can live more efficiently than people living alone can (economies of scale). Fewer and simpler rules might increase beneficiaries' understanding of the requirements and improve the reporting of relevant changes.

This change would simplify determinations of living arrangements. SSA would only have to determine whether someone was living alone or with another adult; the agency would no longer determine household expenses, payment toward those expenses, or the value of help from outside the household.

Although this change would lead to increased benefits for SSI beneficiaries who are currently subject to the VTR or PMV, which reduces their SSI benefits by about one-third, it would result in reduced benefits for many others. The reason is that under current rules, beneficiaries are not charged with VTR or PMV if they can demonstrate that they pay a pro rata share of the household expenses. Under the new rule, beneficiaries who live with an adult would have benefits reduced even if they paid a pro rata share of the household expenses.

Nearly half of all beneficiaries and the majority of children would be subject to the reduction. Between 90,000 and 307,000 beneficiaries whose other countable income, such as Social Security, brings them close to the income limit would become ineligible under a 5 percent to 10 percent reduction. The change would also result in about 1 million benefit increases and 2.6 million benefit decreases. A 5 percent reduction would increase estimated program costs by nearly $6 billion over 5 years. A 10 percent reduction would increase estimated program costs by $400 million over 5 years and would result in savings over 10 years.[16]

[16] Based on an earlier (1998) actuarial estimate for a proposal that included features not included in this option.

Assessing Tradeoffs Among Options for Simplifying the Program

The foregoing discussion of policy options indicates that the current program complexity in the three policy areas is the result of addressing program objectives. The analyses of the different options indicate the tradeoffs that exist in weighing options for simplifying the program.

The option to eliminate clothing from the definition of income and ISM represents the only ISM option that is without significant tradeoffs and, not surprisingly, does the least in terms of program simplification. The resource options to exclude one car regardless of use and the entire value of household goods also fall into that category.

These options are not exclusive, and pursuing them does not necessarily eliminate other considerations. For example, changing the definition of income and ISM to exclude clothing represents a change that would increase the simplification value for the options that continue to include calculation of the actual value of ISM for some beneficiaries. The resource option changing the policy on the automobile and household exclusions could also work with either of the other two resource options.

Determining which options best support program objectives points to additional tradeoffs. Most options appear to support the objective of program integrity and hold promise for increased payment accuracy and better service to the public.

The extent to which the options support the objectives of benefit adequacy and benefit equity, however, seems to vary. The analysis for eliminating the counting of ISM as income suggests that current policy better supports the benefit equity objective. Valuing all ISM at the lesser of its actual value or the one-third reduction would eliminate some current inequities but would offer less in terms of program simplification. The resource options to increase limits and eliminate certain exclusions increase the net income of beneficiaries and, like some ISM options, provide beneficiaries with the ability to decide how best to arrange their limited income and resources to meet their needs.

The two options for estimating and verifying wage income follow both the current method for counting self-employment income and the method for counting wage income in other programs such as Food Stamps and Veterans Pensions. Either option would reduce the current complexity in this policy area.

The remaining challenges are to further assess the tradeoffs and determine which goals should be maximized.

Chapter 4

A Comprehensive Program to Improve Payment Accuracy and Program Integrity

Administering the SSI program requires a large percentage of SSA resources. Even though the number of SSI beneficiaries is less than 15 percent of the number of beneficiaries of the Old-Age, Survivors, and Disability Insurance (OASDI) program that SSA also administers, SSA nevertheless devotes 37 percent of its administrative budget to SSI and 48 percent to OASDI. (The remaining 15 percent is used for administering Medicare's Hospital Insurance and Supplementary Medical Insurance programs.)

Recognizing the need to continually improve management of its programs, SSA developed a comprehensive plan to improve payment accuracy and management of the SSI program. The plan is outlined in the October 1998 report titled *Management of the Supplemental Security Income Program: Today and in the Future.* The report describes four areas in which the agency decided to take significant measures to strengthen the integrity of the SSI program:

- Improving payment accuracy,
- Increasing the number of continuing disability reviews (CDRs),
- Combating program fraud, and
- Improving debt collection.

SSA has already implemented many of the initiatives outlined in the report, such as new computer matches, additional CDRs, and additional redeterminations.[1] In addition, SSA has maintained the focus on improving accuracy as one of its highest priorities.

Results indicate that SSA has made progress in improving the payment accuracy rate, from 93.5 percent in FY 1998 to 94.3 percent in FY 1999—a saving of about $230 million in overpayments. SSA also processed substantially more SSI CDRs, expanded efforts to combat fraud, and received the requested additional authority from Congress to collect outstanding debt.

A status report on the management measures and accomplishments follows.

Improving Payment Accuracy

The 1998 management report pointed out that the majority of SSI overpayments result from beneficiaries' failure to report changes in three areas: income (particularly wages),

[1] Redeterminations are periodic reviews of SSI beneficiaries' nonmedical eligibility that focus on factors that affect eligibility and payment amounts. The factors are income, financial resources, and living arrangements.

financial accounts, and living arrangements (for example, admission to a nursing home). These areas have consistently been among the leading causes for overpayments. The failure to report, or to report in a timely way, does not necessarily imply attempts to defraud or mislead on the part of beneficiaries. There are reasons why a beneficiary might not know to or be able to report a material change, such as a medical crisis resulting in admission to a care facility.

SSA's management strategy is to concentrate on initiatives (described below) that hold promise in reducing or avoiding overpayments.

SSA Instituted Two New Computer Matching Programs

The new computer matches, conducted with data from the Department of Health and Human Services' Office of Child Support Enforcement (OCSE) and the Health Care Financing Administration (HCFA), are considerably more complete and timely than the matches they replace. Table 4-1 shows the increases in frequency and scope of computer matches.

OCSE has developed a parent locator system to help state child support agencies locate missing parents. To support that service, states forward data on wages and unemployment insurance to the OCSE on a quarterly basis. The OCSE matches help detect unreported or underreported income from earnings and unemployment compensation. If there is a significant discrepancy between the OCSE earnings data and the data on SSA's records, the system sends an alert to the SSA field office.

The HCFA nursing home match provides information about nursing home admissions, including dates of admission and discharge if appropriate. A nursing home

Table 4-1.
Increases in frequency and scope of computer matches

	OCSE quarterly wage and unemployment compensation[a]		HCFA nursing home match	
	FY 1998	FY 1999	FY 1998	FY 1999
Frequency	Semiannually	Quarterly	Annually	Monthly[b]
Number of states in each match	Up to 23	Up to 49	33	50+
Alerts generated	288,600	496,500	8,140	83,000

a. The Office of Child Support and Enforcement (OCSE) match was initiated in FY 1999. Before that time, matches were conducted with individual states.

b. As of August 1999, this match is run every month.

admission may require a change in the SSI payment amount, depending on the expected length of the stay.

SSA field offices must investigate the data from the matches before taking action to reduce or suspend benefits. Special studies are now under way to evaluate the results of the OCSE and HCFA matches.

The 1998 management report described some other computer matches as well. The status of those efforts is as follows:

> *Financial accounts*. SSA has explored options to obtain electronic verification of the beneficiaries' financial information (primarily savings and checking accounts). SSA has identified a vendor who can reach the financial institutions nationwide and is currently developing a business process for accessing the information.
>
> *Prisoner matches*. Prisoners are not eligible for SSI. To prevent payments to them, SSA conducts matches with federal and state prison records. These highly successful matches, which are authorized by legislation supported by SSA, have continued. In 1999, about 137,000 alerts on SSI and concurrent SSI and Social Security beneficiaries resulted in 57,070 suspensions of benefits.
>
> *Online access to data*. SSA expanded online access to states' data such as unemployment and workers' compensation records. As of September 2000, SSA had connections to 66 agencies in 37 states as compared with 35 agencies in 22 states in 1998. This access permits fast verification of beneficiary-reported amounts of income such as workers' compensation.
>
> *Matching with other agencies*. SSA increased the frequency of Department of Defense (DOD) matches to detect and verify DOD pension information, and SSA is developing a match with the Immigration and Naturalization Service to track exit from the United States by aliens, which can affect eligibility for payment. SSA is piloting property ownership verification through Lexis-Nexis. SSA has a contract to develop a national electronic death registry to permit fast termination of benefits to individuals whose death was not reported to SSA.

SSA Greatly Increased the Number of Redeterminations Conducted

The redetermination process is one of the most powerful tools available to SSA for improving the accuracy of SSI payments. Through a review of the factors of eligibility and payment, the agency can uncover past incorrect payments and—by correcting estimates of future wages, other income, and so on—prevent similar incorrect payments from occurring in the future.

Table 4-2.
Change in selected redetermination workloads, fiscal years 1997-1999

	1998	1999	2000	Increase, 1998-2000
HEP selections	272,700	503,300	579,000	306,300
Redeterminations processed	1.9 million	2.1 million	2.2 million	330,000

In FY 1998, SSA selected about 35,000 more high-error profile redeterminations and, in FY 1999, almost doubled the volume of those cases selected for review and investigation. A high-error profile (HEP) redetermination is one that, because of the characteristics of the case (such as the presence of wages), is likely to contain incorrect payment amounts. Table 4-2 shows the number of HEP cases selected for review and the total number of redeterminations processed in fiscal years 1997-1999.

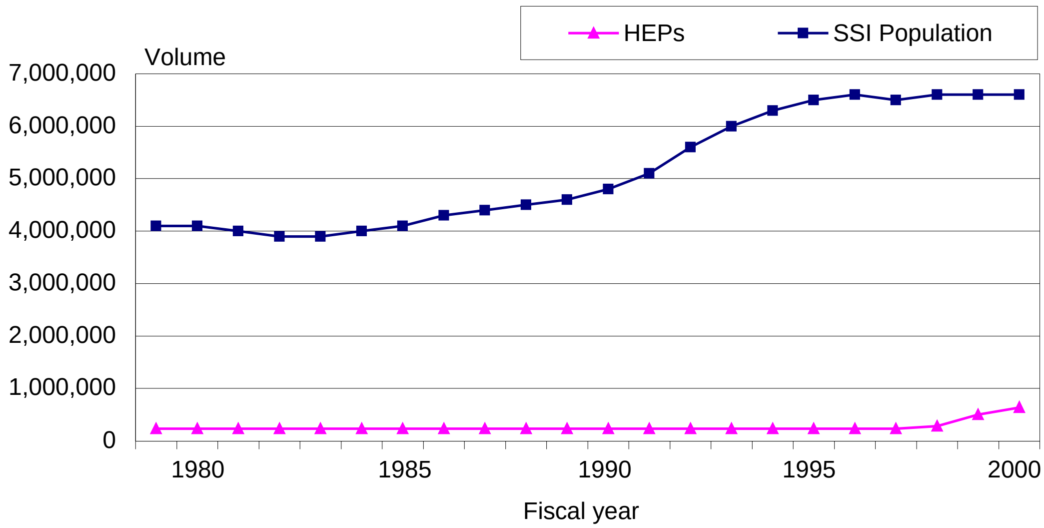
Impact of More Redeterminations on Payment Accuracy Was Small but Moved in the Right Direction

SSA had anticipated a greater impact from the increased redeterminations and the improved matching programs in FY 1999. The data indicate that there is a lag between the time these cases are processed and the resulting effect on payment accuracy.

As stated in the 1998 management report, SSA's objective was to raise the accuracy of SSI payments (as measured by the SSI stewardship sample) from 94.5 percent in FY 1996 to 96 percent by FY 2002. [2] However, payment accuracy actually declined to 93.5 percent in FY 1998. The decline was the cumulative effect of the growth in other work without a concomitant growth in administrative resources. From FY 1979 through FY 1998, SSA had only been able to process a stable number of redeterminations. However, the number of SSI beneficiaries grew during the same period, as Chart 4-1 indicates.

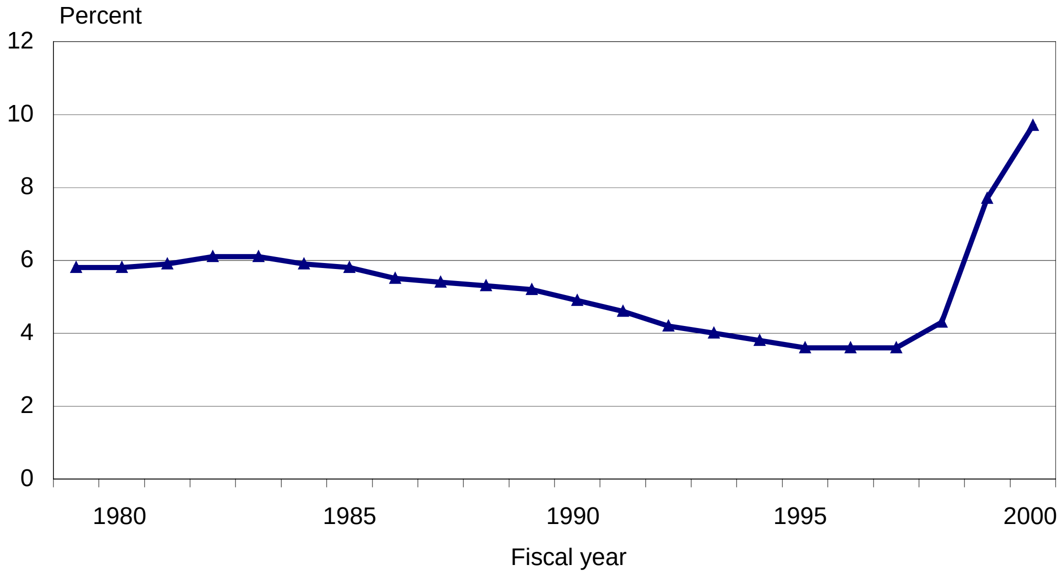
[2] The stewardship review consists of a monthly sample selection and review of about 600 cases. In each sample case, the beneficiary or representative payee is interviewed, collateral contacts are made as needed, and all factors of eligibility and payment are redeveloped. Findings are entered into a national database for analysis and preparation of an annual stewardship report.

Chart 4-1.
SSI population and high-error profile (HEP) redeterminations selected



SOURCE: Social Security Administration, Office of Quality Assessment.

Chart 4-2.
Selections of HEP redeterminations as a percentage of the SSI population



SOURCE: Social Security Administration, Office of Quality Assessment.

As the agency reacted to other priorities with limited resources, SSA was unable to adjust its redeterminations to keep pace with the increased number of SSI beneficiaries until FY 1999. Chart 4-2 shows the historical pattern in the percentage of high-error profile cases selected compared with the total SSI beneficiary population.

In FY 1998 and to a greater degree in FY 1999, SSA improved the profiling process it uses to identify cases that are more likely to involve payment changes. The agency also devoted additional resources to working those cases. As a result of the increases in redeterminations and other initiatives, payment accuracy rose to 94.3 percent for FY 1999. That improvement means that SSA has eliminated about $230 million in overpayments from the stewardship measure, but it is short of the interim goal for FY 1999 of 94.8 percent.[3]

The keys to achieving the goal of 96 percent accuracy by 2002 would be to obtain sufficient resources and take prompt action. Processing more redeterminations and alerts from computer matches on a timely basis, so that incorrect information does not persist on the record, is critical to maintaining and improving payment accuracy. Despite the efforts SSA is making in these areas, the agency does not expect to achieve the payment accuracy goal for FY 2002 that was set out in the 1998 management report, because available resources are not sufficient to undertake these activities.

For FY 2000, SSA processed about 200,000 fewer redeterminations than originally planned. For FY 2001, the President's budget will permit SSA to conduct about 50,000 more redeterminations than in FY 2000, and SSA plans to use profiling changes to identify and process more cost-beneficial cases.

Historical levels for the accuracy of SSI stewardship payments over the past 4 years are shown below:

Fiscal year	Accuracy rate (percent|)
1996	94.5
1997	94.7
1998	93.5
1999	94.3

Increasing the Number of Continuing Disability Reviews

A continuing disability review is a review to determine whether the beneficiary's medical condition has improved. SSA ensures the integrity of the SSI and Old-Age, Survivors, and Disability Insurance programs by periodically conducting CDRs for individuals

[3] Stewardship overpayment dollars based on FY 1998 accuracy would have totaled almost $2 billion; the FY 1999 rate of 94.3 percent equates to about $1.7 billion.

Table 4-3.
Continuing disability review processed for SSI-only beneficiaries

Fiscal year	7-year plan	Actual
1998	362,000	389,000
1999	685,000	792,000

receiving disability benefits. CDRs are a major component in SSA's effort to ensure that only those beneficiaries who continue to be disabled receive payments.

SSA has been processing CDRs under a 7-year plan originally issued in August 1996 and revised in March 1998 and again in May 2000 that expanded the number of CDRs that would be conducted under both the SSI and OASDI programs. To fund the cost of the CDRs, Congress gave SSA special funding authority for an increase in discretionary spending caps for fiscal years 1999 and 2000.

Now over halfway through the plan, SSA has increased the number of SSI-only CDRs conducted in every year of the plan, from 157,000 in FY 1996 to 792,000 in FY 1999. As a result of those 792,000 CDRs, the benefits for 96,940 SSI beneficiaries were ceased. (CDRs for beneficiaries concurrently receiving OASDI and SSI are accounted for under the OASDI program.) SSA estimates that of those cessations, 70,100 will remain after all appeals are completed. In addition, as summarized in Table 4-3, SSA has exceeded the plan for SSI-only CDRs in both fiscal years 1998 and 1999.

SSA's 7-year project to conduct CDRs will continue as planned in FY 2000 and FY 2001. SSA is current in its SSI reviews of children and age-18 redeterminations and expects to be current in its review of SSI adults by the end of FY 2002.

Combating Program Fraud

The SSI management report listed several areas that SSA would address in the near term that go beyond the main fraud prevention and detection programs in the Office of the Inspector General (OIG). Those areas included zero tolerance for fraud and the ongoing fraud prevention activities in SSA field offices. Specific projects have proved to be successful in pilots and are being expanded in several areas, discussed below.

Misreported Residency as a Factor in Fraud

Residency is an important factor in determining eligibility for SSI benefits. In a study of fraud along the U.S. borders with Mexico and Canada, SSA and OIG found that the misreporting of residency was a significant factor in cases of fraud. The agency therefore initiated a major effort in June 1998 in New York and later in New Jersey to focus and further define the issue of residency. In those two SSI eligibility verification projects, almost 33,000 cases have been examined, uncovering about 8,000 individuals who were overpaid or suspended or whose benefits were terminated. Since June 1998, those projects have uncovered $14 million in overpayments.

The reviews conducted in New York and New Jersey have discovered inaccuracies in SSI eligibility factors in general (such as income and assets), as well as the residency factors that were the original focus of the projects. Those projects are continuing, and more SSI eligibility projects are in various stages of development and implementation in other states.

State/Federal Efforts to Investigate Collaborator Fraud

Collaborator fraud involves collabarating parties (for example, unscrupulous health professionals) that help claimants fraudulently obtain disability benefits. The lessons learned from earlier successes in detecting and preventing collaborator fraud in California are being put to use in Cooperative Disability Investigations (CDI) units across the country. Those units investigate suspected fraud cases quickly enough to provide sufficient evidence to deny claims or stop benefits during the initial or continuing disability process. Through September 2000, the CDI units in 11 states had received 2,763 allegations of fraud or similar fault in SSI disability claims and had collected evidence to support denials or cessations in 948 of those cases.

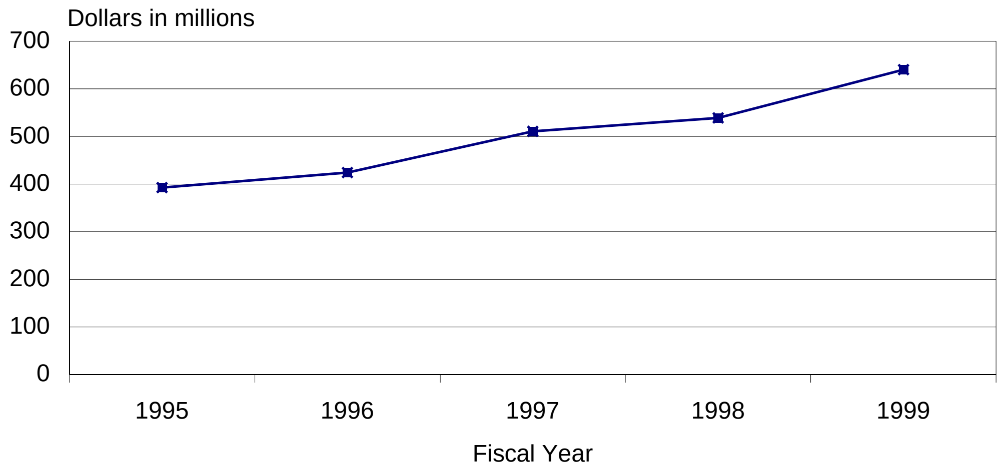
Continuing Efforts to Address Fugitive Felons

SSA and other federal and state law enforcement agencies, such as the Federal Bureau of Investigation, are developing additional agreements to identify and suspend benefits for fugitive felons, who are not eligible for SSI benefits. Over the past 3 years, with a manual process alone, SSA and OIG have identified almost 10,000 fugitive felons who were receiving SSI. That process resulted in stopping benefits and identifying $24 million in overpayments.

Improving Debt Collection

SSA actions since the management report was issued, such as implementing new computer matches and conducting more redeterminations, have also produced dramatic

Chart 4-3.
SSI overpayment collections, fiscal years 1995-1999



SOURCE: SSA Accountability Report for Fiscal Year 1999 for 1995-98; Social Security Administration, Office of Financial Policy and Operations for 1999.

increases in the amount of debt detected and collected. As Chart 4-3 indicates, those aggressive actions have succeeded in uncovering debt, and SSA is making progress in collecting that debt.

The 106th Congress passed legislation sought by the agency that gave SSA the authority to improve debt collection in the SSI program. The Foster Care Independence Act of 1999 (P.L. 106-169) included provisions to expand existing authorities for collecting OASDI debt to SSI debt, which will allow SSA to take the following actions to collect SSI overpayments:[4]

- Apply administrative offset against any other payment issued by the Treasury,
- Apply federal salary offset,
- Refer to credit bureaus,
- Use private collection agencies, and
- Charge interest.

Also, SSA has developed regulations to permit cross-program recovery of SSI debt from Social Security benefits and to institute administrative wage garnishment for public- and private-sector employees who have outstanding SSI overpayments. SSA has developed regulations governing the use of credit bureau reporting and administrative offset (with regulations for the remaining three tools to follow).

[4] P.L. 106-169 also provides authority to hold representative payees liable for overpayments for deceased individuals. The provision is effective December 2000.

In addition to implementing legislation to improve debt collection, SSA implemented a new automatic process in its Modernized SSI Claims System that supports increasing overpayment collections, helps improve stewardship of the SSI program, and enhances SSI program integrity. This new automatic process replaced a previously manual operation that entailed recording overpaid amounts uncollected from former SSI recipients to new SSI records for those same recipients who subsequently become eligible to SSI. After just the first year of using this new automatic process, SSA has increased uncollected overpayments recorded to new SSI records for recovery through benefit withholding by about $310 million.

SSA Will Continue Actions to Improve Program Integrity

In addition to pursuing the initiatives discussed above, SSA also has plans for improving program integrity. Such efforts include implementing legislation and expanding its antifraud activities.

Implementing Legislation

SSA's first priority will be to implement legislation passed during the 106^{th} Congress. The initiatives outlined in the October 1998 report that SSA can now pursue as a result of new legislation include the following:

- Imposing administrative sanctions (penalties) on individuals who make false or misleading statements (interim final regulations were published July 10, 2000);
- Excluding representatives (and representative payees) and health care providers convicted of violations (for example, helping claimants obtain benefits through fraud) from participating in OASDI and SSI programs (regulations being developed);
- Expanding the debt collection authorities SSA uses to collect OASDI debt, such as referrals to credit bureaus, to include SSI overpayments;
- Developing access to financial accounts to gain information on bank accounts at the initial point of contact, thereby preventing overpayments.

Continuing and Expanding Anti-Fraud Initiatives in the SSI Program

Projects such as the SSI Eligibility Project and cooperative disability investigations are in the early pilot stages and have shown great potential for uncovering and preventing fraud. Resources permitting, these initiatives will be expanded to additional states to combat residency and disability fraud and to track and suspend benefits to fugitive felons.

In addition, SSA is developing the Allegation Management System for OIG to track cases, provide management information, and develop profiles of fraud-prone situations. The first phase of the new system is expected to be in place in FY 2001.

Additional Opportunities for Improving Program Integrity

SSA has several other options for improving the integrity of the SSI program.

Funding program integrity activities. One way to improve the likelihood that SSA will receive adequate administrative funding for its program integrity initiatives would be through legislation to exclude SSA's administrative expenses from discretionary spending caps. If SSA's administrative budget was removed from the caps, it could be determined on the basis of the size and scope of the programs administered instead of on the basis of the limits of an arbitrary spending cap. In that case, SSA would not have to choose between investments to improve customer service and investments to strengthen program stewardship. SSA would be in a stronger position to ensure the integrity of its programs and would be able to pursue, to a degree not previously possible, cost-effective program integrity initiatives.

Conducting tests of wage-reporting methods. As described above, matches with the OCSE databases are expected to reduce the amount of incorrect payments resulting from beneficiaries' failure to report changes in wages. These are quarterly matches, so some months are well in the past before alerts on changed wages are issued. More timely information would be a valuable supplement to these matches.

Improved beneficiary reporting would increase payment accuracy for individuals with wages. SSA plans to test two changes in beneficiaries' monthly reporting intended to improve accuracy:

1. Keying in the monthly report via touch-tone telephone, and

2. Providing beneficiaries with a monthly questionnaire to be returned by mail.

As noted in SSA's 1998 report, the agency is committed to effectively managing the SSI program. The initiatives described first in 1998 and updated here are bearing fruit, although results have not always been quick or dramatic. SSA is continuing to monitor those initiatives and to identify new, promising initiatives such as the two described above.

Conclusion

For beneficiaries, the SSI program has been both more generous and more consistent than the state-administered programs that it replaced, while treating this vulnerable population with dignity and respect. In terms of benefit adequacy, however, about half of beneficiaries remain below the federal poverty threshold. Additionally, income for many beneficiaries has eroded because the amount of additional income that is allowed has not changed since the program was created.

The expectation that the program would increasingly become a supplement to Social Security did not prove accurate. While this report does not deal with the issue in any detail, it is important to note that SSI has evolved into a large means-tested cash benefit program for a population that is younger and less attached to the labor force than was originally contemplated. It also appears that future new eligibles will enter the program at an earlier age and remain on it for a longer time than in the past.

The Congress initially expected that SSA could administer the program as readily as it administers the retirement and survivors program, but in reality, managing a program in which the agency has to determine financial need is inherently complex. Although this report offers options to reduce program complexity, the challenge is to simplify the program while still fulfilling the core management objectives of benefit adequacy, benefit equity, and program integrity.

Finally, a means-tested program also has unique challenges in maintaining its integrity. SSA continues to be committed to its stewardship role and is enhancing its efforts to ensure that benefits go to those who are eligible, but only the right amount at the right time.